

SEC23

THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

[illegible]

WITNESS: Daniel Morehead

PAGES: 1 through 152

PLACE: U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

DATE: Friday, September 14, 2018

The above-entitled matter came on for hearing,
pursuant to notice, at 9:41 a.m.

Diversified Reporting Services, Inc.

(202) 467-9200

<p style="text-align: right;">Page 2</p> <p>1 APPEARANCES:</p> <p>2</p> <p>3 On behalf of the Securities and Exchange Commission:</p> <p>4 BRENT MITCHELL, ESQ.</p> <p>5 JAMES MURTHA, ESQ.</p> <p>6 JEFF LEASURE, ESQ.</p> <p>7 STEPHAN SCHLEGELMILCH, ESQ.</p> <p>8 DAVID MENDEL, ESQ.</p> <p>9 Securities and Exchange Commission</p> <p>10 100 F Street, N.E.</p> <p>11 Washington, D.C. 20549</p> <p>12 202.551.4683</p> <p>13 mitchellb@sec.gov</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>	<p style="text-align: right;">Page 4</p> <p>1 C O N T E N T S</p> <p>2 WITNESS: EXAMINATION</p> <p>3 Daniel Morehead 5</p> <p>4</p> <p>5 EXHIBITS DESCRIPTION IDENTIFIED</p> <p>6 161 Subpoena 8</p> <p>7 162 E-mail 75</p> <p>8 163 SAFT 101</p> <p>9 164 E-mail 115</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>
<p style="text-align: right;">Page 3</p> <p>1 APPEARANCES(CONT.):</p> <p>2</p> <p>3 On behalf of the Witness:</p> <p>4 CRAIG WARKOL, ESQ.</p> <p>5 Schulte Roth & Zabel</p> <p>6 919 Third Avenue</p> <p>7 New York, New York 10022</p> <p>8 (202)756-2496</p> <p>9 craig.warkol@srz.com</p> <p>10</p> <p>11 Also Present:</p> <p>12 Steven Jones, Videographer</p> <p>13 Ryan Walker</p> <p>14 Joseph Krmpotich</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>	<p style="text-align: right;">Page 5</p> <p>1 P R O C E E D I N G S</p> <p>2 THE VIDEOGRAPHER: Good morning. This</p> <p>3 begins disc number one. We are on the video record.</p> <p>4 The time on the monitor is 9:41 a.m.</p> <p>5 BY MR. MURTHA:</p> <p>6 Q On the record at 9:41 a.m. on</p> <p>7 September 14th, 2018, at the SEC's home offices in</p> <p>8 Washington, D.C.</p> <p>9 Sir, would you please raise your right</p> <p>10 hand? Do you swear to tell the truth, the whole truth,</p> <p>11 and nothing but the truth?</p> <p>12 A I do.</p> <p>13 Q Thank you. You can lower your hand.</p> <p>14 Whereupon,</p> <p>15 DANIEL MOREHEAD,</p> <p>16 was called as a witness and, having been first duly sworn,</p> <p>17 was examined and testified as follows:</p> <p>18 EXAMINATION</p> <p>19 BY MR. MURTHA:</p> <p>20 Q Can you please state your full name and</p> <p>21 spell your name for the record?</p> <p>22 A Daniel Wayne Morehead, D-A-N-I-E-L,</p> <p>23 W-A-Y-N-E, M-O-R-E-H-E-A-D.</p> <p>24 Q Thank you. Good morning, Mr. Morehead. I</p> <p>25 am James Murtha, and to my left is Jeff Leasure, Steven</p>

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1 Schleigelmilch, and David Mendel. We are members of
2 the staff of the Enforcement Division of the United
3 States Securities and Exchange Commission and officers
4 of the Commission for purposes of this proceeding.

5 This is an investigation by the United
6 States Securities and Exchange Commission in the matter
7 of Kik Interactive file number HO 13388 to determine
8 whether there have been violations of certain
9 provisions of the federal securities laws. However,
10 the facts developed in this investigation might
11 constitute violations of other federal or state, civil,
12 or criminal laws.

13 Prior to the opening of the record, you
14 were provided with a copy of the formal order of
15 investigation in this matter as supplemented. It will
16 be available for your examination during the course of
17 the proceeding.

18 Mr. Morehead, have you had an opportunity
19 to review the formal order?

20 A I have.

21 Q Do you have any questions?

22 A No, I do not.

23 Q Also, prior to the opening of the record,
24 you were provided with a copy of the Commission
25 Supplemental Information form 1662. A copy of that

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1 A It is.

2 (SEC Exhibit No. 161 was marked for
3 identification.)

4 BY MR. MURTHA:

5 Q Thank you. Is there anything medical or
6 otherwise that would prevent you from providing
7 truthful or accurate testimony today?

8 A There is not.

9 Q Did you meet with your lawyer to prepare
10 for today's testimony?

11 A I have.

12 Q When did you meet with him?

13 A Yesterday.

14 Q Where did you meet with him?

15 A At their offices in Washington, D.C.

16 Q Who was there?

17 A Just Craig Warkol.

18 Q And how long did you meet with Mr. Warkol?

19 A Three hours.

20 Q Did you review any documents in preparation
21 for today's testimony?

22 A We did.

23 Q Roughly, how many documents?

24 A A dozen.

25 Q Did any of those documents refresh your

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1 notice has been previously marked as Exhibit 1.

2 Mr. Morehead, have you had the opportunity
3 to read Exhibit Number 1?

4 A I have.

5 Q And do you have any questions concerning
6 this notice?

7 A I do not.

8 Q Mr. Morehead, are you represented by
9 counsel today?

10 A I am.

11 Q Would counsel please identify himself for
12 the record, please?

13 MR. WARKOL: Craig Warkol from Schulte,
14 Roth, & Zabel.

15 BY MR. MURTHA:

16 Q I'd just like to note for the record that
17 we are also joined by a Division of Enforcement intern
18 named Ryan Walker to which I understand neither
19 Mr. Warkol nor Mr. Morehead objects to his attendance?

20 A No.

21 Q Thank you. Mr. Morehead, I'm going to hand
22 you a copy of the subpoena that's been marked as
23 Exhibit 161.

24 Is this a copy of the subpoena you are
25 appearing pursuant to here today?

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1 recollection about specific events?

2 A Yes.

3 Q So could you walk us through at a resume
4 level your educational and work history?

5 A Yes. I went to Princeton University,
6 graduating in 1987. I majored in civil engineering.
7 And after college I began working as a collateralized
8 mortgage obligation trader at Goldman Sachs. I did
9 that for two years, and then went to Bankers Trust
10 where I worked for six years as a derivatives trader
11 both in New York and Tokyo.

12 And then in 1996 I went to London to work
13 for Deutsche Bank as an effects options trader. And
14 in -- I'm sorry that was '94 that I went there.

15 In 1996 I went to Tiger Management hedge
16 fund in New York to work on their global macro hedge
17 fund investing. I was also the CFO at Tiger
18 Management.

19 And in 2000 I cofounded a company called
20 Atriax, A-t-r-i-a-x, that is -- was an online foreign
21 exchange dealing platform.

22 And then in 2004 founded Pantera Capital
23 which has been my business since then.

24 Q Tell me about Pantera.
25 What do you guys do?

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1 A In 2004, we began as a global macro style
2 hedge fund manager managing limited investors --
3 investments in a pool of hedge fund vehicles to invest
4 in currencies, bonds and equity indices.

5 And in 2009 we ceased managing money for
6 clients and I didn't do anything essentially
7 professionally from 2009 to 2013 when I restarted
8 Pantera, if you will, to invest in blockchain oriented
9 assets.

10 **Q So you -- sort of Pantera was not operating**
11 **between 2009 and 2013?**

12 A We weren't managing any client funds, and
13 we had -- previously we were registered with the SEC,
14 and we had deregistered in 2009.

15 **Q Was there a specific reason for**
16 **deregistering in 2009?**

17 A Essentially, just poor performance and
18 investor redemptions and, you know, not, you know,
19 economically interesting to continue running that
20 business.

21 **Q But you continued to operate the hedge fund**
22 **for your own personal investments?**

23 A Yes.

24 **Q And how many -- when you started Pantera,**
25 **did you have partners?**

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1 A 550 million.

2 **Q I have to ask this question. Is Pantera**
3 **named after the legendary rock band?**

4 A Oh, that's a great question.

5 **Q I'm sorry. I just have to because -- it**
6 **wasn't part of my prep so...**

7 A Yeah. No. That's definitely one of the
8 illusions. And it's not named after the really cool
9 car from the '80s either, the De Tomaso Pantera.

10 I had previously been at Tiger Management
11 where they named all their funds after big cats, and
12 Pantera is panther in Spanish and Italian. And then as
13 a global macro hedge fund manager, Pantera in Latin
14 means panther. So I was pretty happy about that
15 question.

16 **Q Okay. I'm sure you've never been asked**
17 **that question before.**

18 A I get asked it by a certain demographic.
19 American males of a certain age. I've never had a
20 90-year-old, and elderly Asian-American women rarely
21 ask me that question.

22 **Q Okay. Sorry for the sideshow there. I**
23 **just had to ask that question.**

24 **So could you tell me about the -- maybe**
25 **starting in early 2017 can you tell me about the**

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1 A No.

2 **Q Okay. How many employees did you have at**
3 **Pantera when you started it?**

4 A It started with two or three. I think it
5 peaked at 30 in 2008 or so, and it's currently at about
6 25.

7 **Q And why did you decide to, for lack of a**
8 **better term, reopen Pantera's doors in 2013?**

9 A I had done a few trades in between those
10 years, and so I was somewhat active in the markets.
11 But then in 2011 I was introduced to Bitcoin. And in
12 2013 I spent a lot of time thinking about Bitcoin and
13 now blockchain and decided that it would be a, you
14 know, very important trade for the next couple decades.
15 So I -- essentially, I began trading blockchain assets.

16 **Q Okay. And we're going to spend a lot of**
17 **time talking about those subjects later on today.**

18 A Uh-huh.

19 **Q We're sort of in the introductory phase**
20 **here.**

21 **Pantera is a -- currently a registered**
22 **investment advisor?**

23 A We are.

24 **Q Assets under management currently for**
25 **Pantera?**

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1 **various funds that Pantera was managing?**

2 A Yes. So at the beginning of 2017, we were
3 and still are managing a fund called Pantera Bitcoin
4 fund, and that fund is set up as a Cayman hedge fund.
5 But it offers daily liquidity being kind of the
6 investment program of the fund is the simplest fund
7 ever. It just buys 100 percent law in Bitcoin.

8 **Q And what do you mean by daily liquidity?**
9 **Investors can get out on the bill of resistance?**

10 A Yes. Its investors can come in or out on
11 any U.S. banking day.

12 **Q And how many assets are under management in**
13 **that fund?**

14 A 125 million.

15 **Q How much did -- how much did that fund**
16 **initially raise when you started in 2017?**

17 A It started with \$2 million.

18 **Q And it's currently valued at 125 million?**

19 A Yes. It's currently valued at 125 million.

20 **Q And is the majority of that increase in**
21 **value due to the rise in the price of Bitcoin?**

22 A You know, it probably at this point is not
23 because a lot of money has come in at around these -- a
24 lot of money has come in and out over five and a half
25 years. And so I would say that only maybe half of the

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1 value or probably half of the value is appreciation.

2 **Q Any other funds?**

3 A Yeah. So at the beginning of 2017 we
4 managed two other funds, two venture funds.

5 **Q Okay. Tell me about those two venture
6 funds, please.**

7 A In 2014 we launched a fund called Pantera
8 Venture Fund, and it was approximately \$12 million of
9 assets invested in eight companies in the blockchain
10 space.

11 **Q What eight companies were those?**

12 A The largest investment is in an exchange
13 called Bitstamp, and it's also invested in Ripple
14 blockchain company, Xapo, X-a-p-o, that is a custodian.
15 And those are the three main investments and some
16 smaller investments.

17 **Q Tell me about the Bitstamp exchange.
18 What is it?**

19 A It is an exchange for trading both fiat
20 currencies, normal cash currencies into
21 cryptocurrencies or trading cryptocurrencies from one
22 to another. So if somebody wants to convert U.S.
23 dollars into Bitcoin, they would use an exchange like
24 Bitstamp.

25 **Q Is that a U.S.-based entity?**

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1 MR. MITCHELL: The two funds that you
2 discussed earlier, do they own equity or do they invest
3 in -- let me start over with my question.

4 Do they own equity?

5 THE WITNESS: They do own equity.

6 MR. MITCHELL: Do they own anything other
7 than equity in those investments --

8 THE WITNESS: The first fund only owns
9 equity. The second fund only invested in equity, but
10 we invested it in a company called Zcash that
11 ultimately dividended protocol tokens.

12 MR. SCHLEGELMILCH: So we're talking about
13 the -- the time period is early 2017.

14 So is it fair to say that I'm not seeing
15 any digital assets other than Bitcoin; is that correct?

16 THE WITNESS: That is -- we hadn't actively
17 invested in any digital asset, other than Bitcoin, but
18 we then did own Zcash by a dividend.

19 MR. SCHLEGELMILCH: Okay. And is Zcash a
20 digital token?

21 THE WITNESS: It is a -- it's similar to
22 Bitcoin.

23 MR. SCHLEGELMILCH: Okay. So no Ether, no
24 Litecoin?

25 THE WITNESS: No.

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1 A No. It's based and regulated in
2 Luxembourg.

3 **Q Okay. Tell me about Xapo.**

4 A Xapo is a custodian of Bitcoin, and so they
5 essentially -- they're a custodian of Bitcoin.

6 **Q I believe you had said there were two
7 venture funds, and we just went through one of them.
8 What's the other venture fund?**

9 A So we launched a fund called Pantera
10 Venture Fund Two that is 24 million in assets, and that
11 has made about 35 investments, I believe.

12 **Q And what types of investments are in
13 Pantera Venture Fund Two?**

14 A That fund, about half of the investments
15 are in companies that help people move money from one
16 country to another, kind of like remittance-type
17 companies. There are -- one's called BitPesa, one is
18 called BitPagos, and Circle is a bigger, more
19 well-known one.

20 It's also invested in a few exchanges
21 around the world, like we're invested in one in the
22 Middle East called BitOasis. There's another company
23 called Abra, A-b-r-a, that helps people move money. So
24 the -- most -- half of the companies are companies that
25 help people move money around the world.

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1 MR. SCHLEGELMILCH: Okay. Thank you.

2 BY MR. MURTHA:

3 **Q So we've had the Pantera Bitcoin fund, the
4 two Pantera venture funds that we've discussed.**

5 A Uh-huh.

6 **Q What else?**

7 A At that time those were the three funds the
8 firm managed.

9 **Q Okay. And since -- and that time, I guess,
10 we're talking about sort of early 2017 at that point?**

11 A Yes. At the beginning of 2017, those were
12 the three funds. We launched a fourth fund on July 1st
13 of 2017.

14 **Q Tell me about that fourth fund.**

15 A That fund was called Pantera ICO fund, and
16 it invests in pre-auction ICO investments.

17 **Q So are we getting -- investing in the
18 pre-sales of --**

19 A Yes. Investing in protocol tokens prior to
20 them being free to trade for either any auction or
21 prior to the auction.

22 **Q Okay. We'll turn to the Pantera ICO fund
23 in a little more detail.**

24 MR. SCHLEGELMILCH: Can I ask one question
25 first?

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1 Sort of -- I'm trying to talk about this
 2 sort of pre-July 2017 time period when Pantera owned
 3 only Bitcoin or Zcash through dividend, was that -- why
 4 was that like an investment decision that you made?
 5 Why only Bitcoin and not any of the other digital
 6 tokens that existed at that point?
 7 THE WITNESS: That was really the year
 8 where -- up until that point, Bitcoin was 85 to
 9 90 percent of the market share, so it was essentially a
 10 proxy for the market. And when these other tokens
 11 became, essentially, more investable or more
 12 interesting, we decided to launch two funds in 2017.
 13 And so we began the year with only Bitcoin and equities
 14 and we ended the year with two other funds that do all
 15 of these other tokens.
 16 MR. SCHLEGELMILCH: Okay. Thank you.
 17 MR. LEASURE: Rewinding the camera a bit.
 18 I think you said in 2013 Pantera sort of reemerged --
 19 THE WITNESS: Yep.
 20 MR. LEASURE: -- with an interest in the
 21 crypto space?
 22 THE WITNESS: Yes.
 23 MR. LEASURE: Is that right?
 24 THE WITNESS: Yes.
 25 MR. LEASURE: What was the thesis behind

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1 might be decades from now.
 2 MR. LEASURE: Okay.
 3 THE WITNESS: You know, but it seemed like
 4 in the next -- in our investable horizon of a year or
 5 two or three, it seemed like a very compelling trade.
 6 MR. LEASURE: Got it. And you had to go
 7 out and find investors?
 8 THE WITNESS: Yes.
 9 MR. LEASURE: And what was the pitch you
 10 made -- what did you -- was what you just said the
 11 pitch that was made to potential investors in Pantera?
 12 THE WITNESS: Essentially, yes.
 13 MR. LEASURE: And, seriously, why
 14 wouldn't -- I don't want to question the premise of --
 15 a fund of -- in this space. Obviously, you've done it
 16 and it worked.
 17 But why wouldn't a potential investor in
 18 Pantera just go out and buy coins themselves?
 19 THE WITNESS: It is a good question and
 20 kind of an obvious question. If you do roll back the
 21 clock back to then, the custodian of the entire
 22 industry was a company called Mt. Gox, which is now --
 23 I guess they're in bankruptcy proceedings, potentially
 24 fraud, incompetence. You know, I'm not sure what
 25 exactly happened there, but there was a very strong

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1 that?
 2 THE WITNESS: I believe that blockchain
 3 generally -- you know, all the equities and the tokens
 4 will be very disruptive to the existing business models
 5 and across a wide enough spectrum of businesses that it
 6 seemed like a very compelling investment.
 7 At the time all of the assets in the space
 8 were valued at \$1 billion, Bitcoin was trading at \$65
 9 per Bitcoin, and so it seemed like a very good
 10 risk/reward. Obviously, it's very speculative. It
 11 could easily go to zero. But if you buy something at
 12 65 that might go to 20,000, it's a compelling
 13 investment.
 14 MR. LEASURE: And when you say speculative
 15 I take it -- and correct me if I'm wrong.
 16 The thesis is you saw potential for it to
 17 have -- Bitcoin or crypto to have amazing disruptive
 18 effects for -- significant disruptive effects in the
 19 economy, and if it did do that and there was mass
 20 adoption, the value could be exponentially high?
 21 THE WITNESS: Yes. I think that might be a
 22 bit of a strong statement. I would say that it seemed
 23 like it was a very attractive risk/reward.
 24 MR. LEASURE: Right.
 25 THE WITNESS: Disrupting the entire economy

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1 need for competent professional management in the
 2 space.
 3 MR. LEASURE: The idea being a potential
 4 investor in Pantera might worry about custodial issues
 5 that he or she held indirectly?
 6 THE WITNESS: Yes.
 7 MR. LEASURE: How does -- does Pantera do
 8 something to -- I mean, I take it then Pantera's
 9 pitches will take on the custodial risk?
 10 THE WITNESS: Yes.
 11 MR. LEASURE: Okay. Is there something
 12 that Pantera does to manage or?
 13 THE WITNESS: Yes.
 14 MR. LEASURE: Tell me about that.
 15 THE WITNESS: So we built our own custody
 16 solution that exposed has proven to be more effective
 17 than Mt. Gox's. So that was relevant. And we had the
 18 first Ernst & Young audit of a crypto asset, which is,
 19 obviously, valuable. We registered as an exempt
 20 reporting advisory with the Securities Exchange
 21 Commission. So we did all of the things that -- I
 22 mean, obviously, it had reputable counsel. We had SEI
 23 as a global administrator.
 24 So we had all of the things that an
 25 institutional investor would expect, and again, Gox

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1 being the extreme example of the industry at the time.

2 MR. LEASURE: Got it. And so I take it
3 then you described one fund which has, I guess, daily
4 liquidity and its main asset is Bitcoin, correct?

5 THE WITNESS: Only asset is Bitcoin.

6 MR. LEASURE: Thank you. And so I take it
7 the premise for that fund is if I, as a wealthy
8 investor, wanted to take a position in Bitcoin and
9 wanted daily liquidity but didn't want to take on the
10 serial risk that that fund operates as a vehicle for
11 that?

12 THE WITNESS: Yes. And the other risk is
13 trading risk. Many investors are used to the
14 convenience of normal markets where you send your
15 broker, you know, \$50,000 and say I want to buy IBM
16 stock. There isn't anything like that, the exchanges.
17 Mt. Gox, again, was the main exchange, and so an
18 investor might have selected our fund for the
19 convenience of being able to send a certain amount of
20 money, guarantee good market executions so they get to
21 evaluate the average price of the day, and all the
22 other comforts of audit and custody.

23 MR. LEASURE: And at the time, let's say
24 2013, when you moved Pantera into the -- and in the
25 early years, was Pantera the only fund out there doing

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1 THE WITNESS: Yes.

2 MR. LEASURE: So now by '17 there were a
3 lot of different alternative digital assets coming into
4 the market?

5 THE WITNESS: Yes.

6 MR. LEASURE: Thank you.

7 THE WITNESS: Many of those digital assets
8 had existed for years, but they had very small values.
9 Bitcoin had 85 percent of the total market cap, and so
10 they were not yet very valuable and that has changed.

11 MR. LEASURE: Right.

12 BY MR. MURTHA:

13 **Q Is the number one goal of all of Pantera's**
14 **funds to make money for its investors?**

15 A Yes.

16 **Q Is Pantera officially affiliated with any**
17 **other entities, any parents, subs, or partners?**

18 A No.

19 **Q Under what circumstances did you first come**
20 **to learn about Kin ICO?**

21 A A cofounder of Ethereum named Amir
22 Chetrit -- I think it's C-h-e-t-r-i-t -- I believe was
23 serving as an advisor to Kin -- or Kik and I -- that's
24 what he represented to me -- said that it was an
25 interesting project and that I should be the management

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1 this or did you run out of computers --

2 THE WITNESS: Yes. I'm sorry. I should've
3 waited. Yes, we were the first fund in the United
4 States to offer cryptocurrency.

5 MR. LEASURE: Different copy cats --

6 THE WITNESS: Yes.

7 MR. LEASURE: Okay. How -- have you had
8 to -- after you started, roughly, how many more funds
9 are there out there that have imitated or done
10 something similar to what Pantera did?

11 THE WITNESS: I certainly don't have the
12 statistics to be precise, but I would say that from
13 2013 until, say, middle of 2016, it was no more than
14 maybe a dozen. And then I've seen Bloomberg reports
15 that there are now 150 hedge funds in the
16 cryptocurrency space.

17 MR. LEASURE: And you think in 2017 the
18 space in particular blew up?

19 THE WITNESS: Yeah. Over a period -- yeah.
20 In 2017, from what I read, 150 hedge funds were formed
21 or exist.

22 MR. LEASURE: Okay. And we're going to
23 turn to this, but I take it now it's not only
24 limited -- but I think you said prior to '17 it was --
25 85 percent of it was Bitcoin, correct?

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1 team.

2 **Q First, I want to hear more about those.**
3 **But we've been using the term ICO so far, and it seems**
4 **like we're communicating effectively. And you**
5 **understand what an ICO is. I think I understand what**
6 **an ICO is. We've had a lot of, frankly, Kik witnesses**
7 **come in, and they refer to it as a token distribution**
8 **event.**

9 **Do you regularly refer to ICOs as token**
10 **distribution events?**

11 A I do not.

12 **Q Okay. Have you ever heard that term**
13 **outside the Kin offering?**

14 A I have, and I personally think it's a more
15 descriptive term. It's a better description.

16 **Q Why?**

17 A There are lots of different ways to
18 distribute tokens, one of which would be selling or
19 offering it, and there are other ways of distributing
20 tokens.

21 **Q What are the other ways of distributing**
22 **tokens?**

23 A Bitcoin's original distribution was to not
24 offer or sell them to anyone but to give them to those
25 who provide the security and transaction processing of

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1 the network, which are unfortunately called miners.

2 **Q Miners?**

3 A Yeah.

4 **Q Got it. So you mentioned Mr. Chetrit**
5 **introduced you to the Kik team.**

6 **Did you ultimately end up having a meeting**
7 **with them?**

8 A I did.

9 **Q Can you tell me about that meeting, please?**

10 A I met them in their offices in lower
11 Manhattan in May of 2017.

12 **Q And do you recall who was there?**

13 A The CEO, Ted Livingston, was there, the --
14 Peter Heinke, who I believe is the CFO, and then Tanner
15 Philp. And I believe there were a couple of other
16 participants but I don't recall who else was there.

17 **Q Was anyone else there from Pantera?**

18 A No.

19 **Q What did Mr. Livingston say during the**
20 **meeting?**

21 A He described the Kik Messenger business,
22 which I was not very familiar with, and then described
23 the plans to do the Kin social network token.

24 **Q And what was the plan?**

25 A To build upon their previous three-year

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1 30 percent would be reserved for the Kik Messenger
2 company, ten percent would be sold in auction, and that
3 60 percent would be distributed to the contributors to
4 the social network over time.

5 **Q Did Mr. Philp add anything to the**
6 **conversation?**

7 A I don't believe he was a large -- I don't
8 recall him being a large part of the conversations. It
9 was mainly Peter and Ted Livingston.

10 **Q And how did you feel? What was your take**
11 **away from the meeting?**

12 A I actually thought it was a really exciting
13 meeting. We had invested in a handful of smaller token
14 distribution events throughout 2017, but this was,
15 essentially in order of magnitude, bigger and all of
16 those were much, much smaller. And so at the time,
17 Kin's auction, I believe, was the largest auction yet
18 in history and it was at least five times bigger than
19 any I was -- I'm sorry. Brave Browser just recently, a
20 day or two before dumped a \$32 million raise. But it
21 was five times bigger than anything that had happened
22 months before.

23 MR. MITCHELL: What did they tell you about
24 the Kik messaging app?

25 THE WITNESS: They described how it works

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1 trial of a token, which was wholly within their
2 network, to build a social network that would, you
3 know, ultimately compete with the bigger social
4 networks where contributors would get tokens for
5 helping to make this system vibrant.

6 **Q What did Mr. Livingston say about the ICO,**
7 **if anything?**

8 A He did say that they had published or they
9 were about to publish a white paper and that I should
10 read that and that they would do -- either he or -- I
11 don't remember who did each of the different speaking,
12 but maybe he or Peter Heinke described the -- at least
13 the rough terms of what would ultimately be their token
14 distribution event.

15 **Q And what were those --**

16 MR. MENDEL: I'm sorry. I think you
17 mentioned a three-year time frame. Is that what was
18 discussed at that meeting?

19 THE WITNESS: No. I don't think I
20 mentioned that.

21 MR. MENDEL: Oh, I'm sorry.

22 BY MR. MURTHA:

23 **Q What did Mr. Heinke say at the meeting?**

24 A He said that they would create a fixed
25 number of tokens, which is similar to Bitcoin, and that

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1 and how many users they had, a little bit about the
2 demographics, you know, more kind of teen girls
3 than -- more skewed toward teen girls than the normal
4 population. They told me that it had -- I think they
5 said 15 to 20 million monthly active users, 300 million
6 accounts, and that's essentially it.

7 MR. MITCHELL: And was the app part of your
8 sort of analysis of whether you wanted to purchase
9 anything from Kik?

10 THE WITNESS: Yeah. I never considered
11 purchasing anything from Kik but we --

12 MR. MITCHELL: Right. But you bought
13 tokens from Kik eventually?

14 Well, let me back up. At the meeting were
15 they talking about Pantera potentially purchasing
16 tokens?

17 THE WITNESS: Yes. In the Kin Ecosystem.

18 MR. MITCHELL: In the Kin Ecosystem, right.
19 And who were you buying those from?

20 THE WITNESS: From -- I would say not from
21 Kik. We were participating in an auction where a
22 certain -- fixed number of tokens were sold to the
23 public, and the sponsor, I believe, is a Swiss
24 nonprofit foundation.

25 BY MR. MURTHA:

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1 **Q Where did you form that belief?**

2 A Ethereum is a Swiss nonprofit foundation
3 and many are. And I thought that's where they -- their
4 foundation -- but maybe they haven't set it up yet.
5 But they -- I was convinced that a foundation separate
6 from Kik would be running the ecosystem over the next
7 decades.

8 MR. MITCHELL: Let me just come back to the
9 -- that meeting where you were talking to Kik -- the
10 Kik people in May of 2017.

11 You were talking at that point of Panthera
12 potentially buying tokens from someone?

13 THE WITNESS: Yes, yes.

14 MR. MITCHELL: When you were listening to
15 their story and their proposal, did -- was the
16 messaging app part of this idea of the Kin token going
17 forward?

18 THE WITNESS: Yes. The messaging app would
19 be the first service provided on this new Kin
20 Ecosystem.

21 MR. MITCHELL: Okay. And so was that --
22 were you interested to the -- how -- in the size or the
23 success or the use of the app when you were trying to
24 weigh whether you wanted to purchase tokens?

25 THE WITNESS: Yes. I thought that by

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1 decentralized businesses. And -- you know, so making
2 smart phones would probably be the worst thing to do
3 decentralized. Social networking is probably the best
4 thing to do as a decentralized business.

5 MR. LEASURE: Got it. So they're already
6 in the social networking business, Kik --

7 THE WITNESS: Yeah.

8 MR. LEASURE: -- and they're proposing a
9 decentralized business strategy in that space?

10 THE WITNESS: Yes.

11 MR. LEASURE: So you liked that idea?

12 THE WITNESS: Yes.

13 MR. LEASURE: Did Kik tell you why it
14 wanted to do a token strategy?

15 THE WITNESS: No.

16 MR. LEASURE: Did you ever know -- find out
17 why Kik wanted to do a -- move into the crypto space?

18 THE WITNESS: They had -- Ted Livingston
19 had mentioned that they had run -- they'd been
20 enthusiasts on blockchain concepts, you know, both
21 personally and professionally, and that they'd run a
22 three-year trial of an internal cryptocurrency, which
23 by their statistics had done more trades per day than
24 Bitcoin itself.

25 MR. WARKOL: If I may, it might help a

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1 starting with a community of 20 million active users
2 they would have a better chance of building a
3 decentralized social network than just two guys in a
4 garage.

5 MR. MITCHELL: Thanks.

6 MR. LEASURE: So from your perspective,
7 leaving that meeting, you were interested at least in
8 the token offer?

9 THE WITNESS: Yes.

10 MR. LEASURE: And you liked -- just to
11 follow along, you liked the size of it?

12 In other words, this was a force of
13 magnitude bigger than things otherwise in the market at
14 the time, right?

15 THE WITNESS: Yes.

16 MR. LEASURE: You liked the size, you liked
17 the fact that there was an existing messaging app with
18 an existing user base, right?

19 THE WITNESS: Yes.

20 MR. LEASURE: Were there other things that
21 could've appealed to you about this?

22 THE WITNESS: Yes. I think social
23 networking is a great use case for decentralized
24 businesses. There are some things like making tiny
25 smart phones that are not really well-suited to

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1 little if you could explain sort of the excitement
2 about Kin in terms of the user content versus the sort
3 of Zuckerbergs of the world versus -- like the value
4 proposition that you saw. I think --

5 THE WITNESS: Well, yeah. I do -- I
6 actually do think it's -- I think their project is
7 going to take a decade or two, you know, probably to
8 either work or fail, to find out to prove this. But I
9 think it -- decentralized applications are really going
10 to be important in things where there's millions of
11 potential contributors, and social networks are the
12 best example.

13 Facebook's one of the most valuable
14 companies on the Earth, but the two billion people who
15 actually create all of the content get nothing for the
16 success of the network. And they're -- obviously, the
17 idea to create it eight years ago or ten years ago,
18 whenever it was, was genius and that was great, but
19 today the value's really in the two billion users.

20 And in a decentralized version, say if Kin
21 is successful, all the people that create what's
22 wonderful about a social network will both have a stake
23 in it but also have a controlling interest. It's going
24 to be run democratically. And Facebook being the
25 extreme example where there's a single person who has

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1 all voting -- or has the majority of the voting rights.
2 So there isn't really -- it's the most centralized you
3 could even create.

4 MR. LEASURE: So you think -- as an
5 investor you think it's very possible that people,
6 users will be attracted from a decentralized -- I'm
7 sorry -- from a centralized world like Facebook, people
8 will be attracted to move to a decentralized space?

9 THE WITNESS: Some fraction. So,
10 obviously, not 100 percent of the two billion Facebook
11 users are going to switch tomorrow, but there are at
12 least a meaningful fraction of people who actually
13 value decentralization and, you know, democracy.

14 MR. LEASURE: Sure. And then as an
15 investor you would -- if you -- you saw the Kik project
16 as potentially something that could work in that space?

17 THE WITNESS: Yes.

18 MR. LEASURE: And you wanted to get in?
19 You were thinking about getting in early as an investor
20 then?

21 THE WITNESS: Yes.

22 MR. MITCHELL: You were discussing that Kik
23 had run a cryptocurrency in its own app?

24 THE WITNESS: Uh-huh.

25 MR. MITCHELL: I guess, is that the Kin

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1 essentially even similar to Facebook. They started in
2 a dorm. Not much happened for five years, and now it's
3 a very meaningful force in the world, right.

4 And so all I was trying to say is as an
5 investment manager we're trying to think, you know,
6 many years down the road. And as an aside I would say
7 that there's often been a lot of hype about Bitcoin or
8 blockchain where people think it's going to change the
9 world overnight, and it's just going to take a couple
10 decades, like the Internet has taken a couple decades.

11 MR. LEASURE: Right. We're going to turn
12 to sort of what's happened after the token launch
13 particularly with Kin, but I take it as an investment
14 manager, is it right that you see yourself as sort of
15 positioned in a multi-year project?

16 THE WITNESS: Yes. Our venture funds have
17 a ten-year life to them, so we're obviously looking out
18 many years. And then our holding period on our ICO
19 fund is -- averages much more than a year. So we are
20 looking quite a ways down the road.

21 MR. LEASURE: Got it.

22 MR. SCHLEGELMILCH: So specifically -- and
23 if it makes sense to think about it sort of in the
24 May 2017 time period, what was sort of your expected
25 time horizon for holding the Kin asset?

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1 Points?

2 THE WITNESS: Yes.

3 MR. MITCHELL: I've never heard it
4 described as a cryptocurrency.

5 Did anyone tell you that that was -- that
6 those points were actually sort of somehow linked in
7 any way to a blockchain at that time?

8 THE WITNESS: No. It is more some kind of,
9 yeah, loyalty point system.

10 MR. MITCHELL: Yeah. Perfect. I just
11 wanted to make sure.

12 THE WITNESS: Yeah. And it's definitely
13 not a -- I shouldn't have said cryptocurrency. It's a
14 loyalty point system that was a precursor to what they
15 could do with Kin Ecosystem.

16 MR. LEASURE: One other thing I -- when you
17 were talking about -- frankly, it was very helpful to
18 hear your view of kind of the vision of a project -- of
19 a decentralized project in the social networking space,
20 and I think you said whether it works or not it might
21 take a decade or more.

22 Can you expand on that? Why isn't it ready
23 at day one? Why would it take a decade for a project
24 to build out?

25 THE WITNESS: I would say that would be

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1 THE WITNESS: On the order of, say, maybe
2 nine to 12 months would be a central expectation.

3 MR. SCHLEGELMILCH: Okay. Thank you.

4 BY MR. MURTHA:

5 **Q Going back to the meeting in May of 2017,**
6 **did you go to New York just to meet with the Kik team?**

7 A No. I was there for a conference.

8 **Q Was that the Token Summit?**

9 A It was actually Consensus which preceded
10 Token Summit by a day.

11 **Q Did you go to Token Summit?**

12 A I did.

13 **Q Did you meet with Kik before Token Summit?**

14 A I met with them on May 24th, which I
15 believe was the morning of Token Summit maybe.

16 **Q I think it was -- I think that was the day**
17 **before?**

18 A Okay. Yes.

19 **Q During your conversations with the Kik team**
20 **during the meeting in New York in May of 2017, did**
21 **anyone on the Kik team ever mention to you that they**
22 **had no significant source of revenue?**

23 A Kik messenger had no source of revenue?
24 No.

25 **Q Would that have been important for you to**

1 **know?**

2 A No.

3 **Q Why not?**

4 A I was not investing in Kik messenger.

5 **Q What were you investing in?**

6 A A completely separate ecosystem in the Kin
7 social network that itself would probably never have
8 revenue, as Bitcoin has no revenue. It's -- that's
9 not -- it's actually not an important factor.

10 MR. SCHLEGELMILCH: I think I know the
11 answer to this question based on what you just said,
12 but just so it's in the record.

13 So Kik didn't provide you with any of its
14 audited financial statements or any financial
15 statements?

16 THE WITNESS: I don't believe so.

17 BY MR. MURTHA:

18 **Q Did Kik ever mention to you that they had a**
19 **cash runway that would run out in the fall of 2017?**

20 A No.

21 MR. SCHLEGELMILCH: Would that have been
22 relevant to you?

23 THE WITNESS: I don't think so. As long as
24 they could have sponsored this interesting project,
25 which, actually, may well outlive Kik Messenger, the

1 company that would not have been a major factor.

2 MR. MITCHELL: What do you mean sponsor?

3 THE WITNESS: What I mean is to lend
4 developers to see the project or incubate it, I guess
5 is the right way to say it.

6 MR. MITCHELL: Developers -- employees?

7 THE WITNESS: Yes.

8 MR. LEASURE: So that takes money, right?

9 THE WITNESS: Yes.

10 MR. LEASURE: Unless the employees are
11 working for free then you'd have to pay them?

12 THE WITNESS: I don't know, but I would
13 imagine that the Kin Foundation could have already or
14 in the future reimbursed Kik Messenger for any
15 development costs.

16 MR. LEASURE: Got it.

17 THE WITNESS: That's just a supposition. I
18 don't know, but that would seem fair.

19 MR. LEASURE: From your perspective -- just
20 correct me if I'm wrong -- you were at the -- you
21 weren't told about Kik, the company's financial status
22 at the time of this meeting, correct?

23 THE WITNESS: That's correct.

24 MR. LEASURE: And from what you're saying
25 it sounds like you didn't need to know about that

1 because if this project succeeds hopefully Kik would
2 receive enough money in order to sponsor the Kin
3 project in the future?

4 THE WITNESS: The reason I thought about
5 the -- if it mattered to me how long the runway was is
6 that I think it would only take a period of months not
7 years or decades for Kin to -- I'm sorry for Kik
8 Messenger to loan or second or whatever you would call
9 the developers to get enough of it built that it would
10 take on a self-sustaining life of its own.

11 The example I would make is the creator of
12 Bitcoin, Satoshi Nakamoto left the project a long time
13 ago, and 90 percent of Bitcoin code was written by
14 other people. And so the way it's an analogy here is
15 that Satoshi Nakamoto incubated Bitcoin but it's
16 totally irrelevant to its current usage, and that's my
17 opinion on Kik Messenger.

18 They were planning to incubate it, but it
19 would quickly be able to take on a life of its own.
20 And once they completed their auction, the foundation
21 now has plenty of money to hire developers and do all
22 those things. So it was just a very short time window.

23 MR. LEASURE: Okay. So whatever money
24 concerns there would be about the incubation
25 requirements placed on Kik in the future, they were

1 limited and the auction -- the money raised in the
2 auction would take care of it.

3 THE WITNESS: Yeah. I think we wired money
4 on June 30th. So they just had to make it to
5 June 30th.

6 BY MR. MURTHA:

7 **Q Did Kik ever mention that they had hired**
8 **Credit Suisse to find buyers for the Kik messaging app**
9 **but that nobody wanted to buy the company?**

10 A No.

11 **Q Did you ever come to learn from any source**
12 **that Kik's ICO was a last-ditch effort to pivot into a**
13 **new venture to try to save the company, that they were**
14 **essentially staring at the cemetery gates?**

15 A Many people told me that they had been
16 trying to raise venture capital over a period, but I
17 never knew that -- any of the specifics that -- Credit
18 Suisse or any of those things.

19 MR. LEASURE: Sorry. But when you say many
20 people told me?

21 THE WITNESS: I certainly had the
22 impression that they didn't have a huge stock pile of
23 cash, and I didn't know that they had a business model
24 that earned them enormous revenues. Like, I understand
25 how Facebook makes money. I didn't know how Kik

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1 Messenger made money.

2 BY MR. MURTHA:

3 **Q Tell me about the ICO market generally in**
4 **early 2017. Like, was it an active market?**

5 A No. It was not active yet. There were a
6 handful of deals that had happened up until the end of
7 2016, and it became much more active in the spring of
8 2017.

9 **Q And were you getting involved in the ICO**
10 **markets in the spring of 2017?**

11 A Yes. We invested in a handful of deals in
12 the spring of 2017.

13 **Q Tell me about those deals.**

14 A We invested in a company called 0x and
15 another one called -- it's not a company; it's a
16 protocol -- another protocol called FunFair, and that
17 is a decentralized online gaming protocol.

18 **Q And how much money did you invest in 0x?**

19 A I think we invested 250,000 in that.

20 **Q And what did you do with it? Did it go**
21 **into a fund or?**

22 A It subsequently went into Pantera ICO fund.

23 **Q And I'm sorry. That fund first closed in**
24 **July?**

25 A So it closed July 1st, and we did that

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1 become important and that we should essentially build
2 out our team and hire a co-chief investment officer.

3 Joey Krug actually created the first ICO on
4 the Ethereum network, so I wanted to get somebody that
5 was very experienced in the space. And we would then
6 launch a fund to trade all digital assets.

7 MR. LEASURE: So the token world -- it
8 sounds like the token and blockchain world was
9 expanding early 2017; you observed that and wanted to
10 capitalize on that opportunity?

11 THE WITNESS: Yes.

12 MR. LEASURE: Why? Why was the world --
13 the token world expanding then? What was happening?

14 THE WITNESS: I think a few factors came
15 together at the same time. One of which was a standard
16 on Ethereum called ERC-20 which made it very easy to
17 build applications on top of another blockchain,
18 Ethereum in this case. And then those assets would be
19 easy to store in Ethereum's wallets and they'd be easy
20 to move around.

21 It's theoretically possible to do that on
22 Bitcoin, but no one really has actually done it. And
23 that just -- that made it easier for the markets.
24 That's the principal thing that happened, and I think
25 that was late 2016 that actually got released. But

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1 investment maybe six or eight weeks before that.

2 MR. LEASURE: So in terms of that fund, I
3 take it at some point in early 2017 Pantera thought
4 about and then executed on the idea of setting up a
5 specific fund for ICOs, right?

6 THE WITNESS: We originally planned to do a
7 fund that would trade all digital assets, both
8 pre-auction SAFT contracts and liquid things like
9 Bitcoin and Ethereum. And in May of 2017, I hired a
10 gentleman named Joey Krug who is -- as the co-chief
11 investment officer to help me manage all these new
12 funds.

13 MR. LEASURE: Got it. And what -- you
14 explained to me the thesis back in 2013 when Pantera
15 first emerged generally into the Bitcoin and then the
16 like.

17 In 2017 what was the thesis? What were you
18 thinking?

19 THE WITNESS: Essentially that the world
20 had expanded. Until the end of 2016, it was
21 essentially just -- the relevant things in the industry
22 were just Bitcoin and venture equity. The other things
23 were very small fractions of the market, and I came to
24 believe that the other blockchains and then
25 applications built on top of blockchains would also

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1 then interesting projects like FunFair and 0x and Kin
2 Ecosystem came along that I think galvanized people's
3 interests.

4 MR. LEASURE: And tell me about the
5 interest side or I guess I call it the demand side for
6 tokens at the time. Was that increasing alongside
7 with, you know, ERC-20 and other projects out there?

8 THE WITNESS: It was. And it was, you
9 know, increasing very strongly right around that --
10 there was a Token Summit for the first time. So it
11 really helped, you know, 600 people or whatever it was
12 to learn about it. So, yes, the global -- or, you
13 know, kind of investor or, you know, knowledge about
14 the space was expanding very quickly right at that
15 period of time.

16 MR. LEASURE: And I'm curious from your
17 perspective because obviously you've been an investor
18 in the space. By that point in May of 2017, you'd been
19 an investor in the space for nearly or around four or
20 so years, right?

21 THE WITNESS: Yes.

22 MR. LEASURE: So who are the -- there's new
23 people coming into the space. There's new investors;
24 who are they? What are you seeing?

25 THE WITNESS: Gosh. Apart from our own

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1 limited partners, I don't know that I could -- I don't
2 know who's buying. You know, I don't know that I could
3 opine on who the other investors are.

4 MR. LEASURE: Well, were they all other
5 hedge funds, like Pantera copies? Was it other groups?
6 Do you have any sense of that?

7 THE WITNESS: I do know that there were new
8 hedge funds, you know, doing similar strategies to
9 Pantera that became important in the space. Just an
10 inference -- I don't think it was big kind of insurance
11 companies and pension funds. I think it was other --
12 you know, other types of investors.

13 MR. SCHLEGELMILCH: Let me ask you sort of
14 a question that I hope gets at the same idea but maybe
15 in a different way.

16 Did you attend the Token Summit?

17 THE WITNESS: I attended some of it, maybe
18 an hour or two.

19 MR. SCHLEGELMILCH: Who's the target
20 audience of the Token Summit? Who goes to that thing
21 or who went to that thing in May of 2017?

22 THE WITNESS: Obviously, a lot of people
23 that are in the blockchain community. You know, many
24 of these people are very passionate about this project
25 being very important and not -- and often not even

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1 **Bitcoin and Ether had increased in value, do you think**
2 **that that had piqued people's interest in these new**
3 **tokens?**

4 A Yes.

5 MR. MITCHELL: In what way?

6 THE WITNESS: It seems that the amount of
7 press coverage of all assets maybe but these ones in
8 particular is proportional to the price change in the
9 last few months.

10 MR. MITCHELL: And so in late 2016 or early
11 2017, the price increases in Bitcoin and Ether had been
12 significant?

13 THE WITNESS: Yes.

14 MR. SCHLEGELMILCH: I mean, there was a lot
15 of hype going into the summer of 2017 about these
16 digital assets, right?

17 THE WITNESS: There was a lot of press
18 about them.

19 MR. MITCHELL: And about the possibility of
20 other tokens or other assets also increasing in value?

21 THE WITNESS: Yes, I'm sure that would be
22 implied that if several digital assets are going up
23 people would think that making digital assets go up.

24 MR. MITCHELL: But when you just talked to
25 people about this area -- or this vendor were people

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1 related to their financial interests. They just think
2 it's really an important project for the world to, you
3 know, reduce expenses and, you know, reduce power of
4 the monopolists that control some of these payment
5 rails.

6 I think that was -- there was probably now
7 a lot of, you know, kind of Wall-Street-type people
8 trying to figure out what was going on. So I think
9 those are probably the two biggest groups. You know,
10 people that had a long experience in the blockchain
11 space and then Wall Street people trying to figure out
12 what was happening.

13 MR. SCHLEGELMILCH: Thank you.

14 BY MR. MURTHA:

15 **Q Do you have an understanding of why people**
16 **were investing in tokens in 2017?**

17 A Perhaps they shared my view that it was an
18 asymmetric bet that -- an asymmetric investment where
19 obviously you could lose all of your capital, but you
20 might make more than one times your capital or you
21 might make five times your capital.

22 **Q Do you think that Bitcoin and Ether had an**
23 **effect on the markets?**

24 A In what way?

25 **Q Well, in investor interest, the fact that**

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1 talking about that concept?

2 THE WITNESS: The concept of?

3 MR. MITCHELL: That Bitcoin and Ether have
4 gone up, you know, in the recent past other tokens
5 could potentially go up in value in the future.

6 THE WITNESS: Yeah, I'm not sure I ever
7 heard anyone say it like that.

8 MR. MITCHELL: Have you heard people say
9 they think similar things?

10 THE WITNESS: Oh, I mean, I've heard many
11 people say they were very bullish on the blockchain
12 space and things like that, but I'm not sure I
13 understand the spirit of the question.

14 MR. MITCHELL: Sure. When you say bullish
15 on the blockchain space, bullish means the possibility
16 of making money?

17 THE WITNESS: I do. Price increases, yes.

18 MR. MITCHELL: Thanks.

19 THE WITNESS: There were people, some
20 famous hedge fund investors that said the market was a
21 bubble, and so presumably it could have been short and
22 so expecting to make money if the price did fall.

23 MR. LEASURE: So at this time I think you
24 hired Joey Krug?

25 THE WITNESS: Yes.

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1 MR. LEASURE: And you were talking about
2 setting up what became the Pantera ICO fund, right?
3 THE WITNESS: To the extent it matters
4 because we were talking about setting up Pantera
5 Digital Asset Fund that we set up on November 1st of
6 2017, that was our original conception.
7 MR. LEASURE: And that became in July the
8 Pantera ICO fund?
9 THE WITNESS: Yes. We were originally
10 going to trade in the digital asset fund both liquid
11 post-auction blockchains and pre-auction SAFT
12 contracts. And we made a decision to, essentially,
13 split the fund into two, one would do only one thing
14 and the other would do only the other thing.
15 MR. LEASURE: Got it. Thank you. Okay.
16 And the ICO fund ultimately bought SAFTs
17 for the Kin project?
18 THE WITNESS: Yes.
19 MR. LEASURE: Okay. How many tokens has it
20 invested in SAFTs for tokens?
21 THE WITNESS: 45.
22 MR. LEASURE: So it's pretty well
23 diversified I take it? That's a lot.
24 THE WITNESS: Yes.
25 MR. LEASURE: Okay. Similar to what I

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1 But is it fair to say that unlike maybe
2 your earlier Bitcoin-focused funds you had, the Pantera
3 ICO fund drew much more heavily on traditionals with
4 advisor skill in selecting the right projects?
5 THE WITNESS: Yes.
6 MR. LEASURE: Okay. And that -- that's the
7 value that you think Pantera adds particularly for this
8 fund I take it?
9 THE WITNESS: Yes. I would say that
10 although the Pantera Bitcoin fund only had one asset
11 there was potentially some skill in picking that asset
12 and helping people focus on it as well.
13 MR. LEASURE: Oh, yeah. And I'm not trying
14 to criticize. I mean, it seems -- this seems an order
15 of magnitude more of assessing between different
16 coin -- tokens and deciding which ones are good
17 investments, right?
18 THE WITNESS: Yes.
19 MR. LEASURE: At a high level, how do you
20 guys do that?
21 THE WITNESS: So we have an investment team
22 of four or five individuals mainly with computer
23 science backgrounds that read these white papers to
24 understand what the project is. We first determine
25 whether it's technically feasible. We occasionally

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1 asked you earlier about the fund in 2013. What was the
2 pitch -- you guys attracted investors to the Pantera
3 ICO fund; is that right?
4 THE WITNESS: Yes, yes.
5 MR. LEASURE: What was the pitch?
6 THE WITNESS: That these new protocols
7 built on top of other blockchains, these ERC-20 tokens
8 would be a significant event, and it would present an
9 asymmetric risk or opportunity.
10 MR. LEASURE: Okay. And similar to the
11 question I asked you about the earlier fund, if I were
12 looking at investing in the Pantera ICO fund, why
13 wouldn't I just buy all the tokens that were out there?
14 Why would I give my money to you guys to manage?
15 THE WITNESS: There was a time when the
16 blockchain space was pretty simple. There was just
17 Bitcoin.
18 MR. LEASURE: Right.
19 THE WITNESS: Now, there's reportedly 1500
20 projects out there, and it would seem sensible to have
21 an experienced professional manager help select the
22 projects to invest in.
23 MR. LEASURE: Got it. So is it fair to
24 say -- again, this is at a pretty high level. I
25 appreciate that.

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1 come to the conclusion that the white paper actually
2 just doesn't make sense and it won't and it's not
3 actually possible to do. And then we make the kind of
4 normal venture style evaluation of the team and the use
5 case and the opportunity and, you know, all the other
6 things. But the technical part's normally the first --
7 or is one of the most important.
8 MR. LEASURE: And the technical part is
9 just because we are dealing in a technological space.
10 Do you mean the technological feasibility
11 of the blockchain underlying the project itself or
12 something else?
13 THE WITNESS: Yes. And just whether the
14 project as stated could actually be coded if you had
15 enough coders to do it.
16 MR. LEASURE: Okay. Thank you.
17 What are the assets under management for
18 the Pantera ICO fund now?
19 THE WITNESS: 150 million.
20 MR. LEASURE: And in particular --
21 particularly, once you get beyond technically assessing
22 whether a particular project can work, did Pantera like
23 or dislike certain token projects?
24 THE WITNESS: Yes. Our principal criterion
25 for selecting a project is whether the token itself is

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1 absolutely necessary to the functioning of the network,
2 and that's actually not always true.

3 MR. LEASURE: Right. Sometimes it's --
4 some projects appear just to be bolt on or just add the
5 word token to an existing business or something like
6 that?

7 THE WITNESS: Yes.

8 MR. LEASURE: I take it you felt -- I take
9 it you felt we're going to roll the camera forward, but
10 you felt Kin was not that? And by that I mean just a
11 bolt on added to the Kik Messenger app.

12 THE WITNESS: Yes. I feel very strongly
13 that it was on the really good side of that spectrum.

14 MR. LEASURE: Thank you.

15 MR. MITCHELL: Earlier, I think you said
16 you also look at the team. What are you looking for
17 when you look at the team?

18 THE WITNESS: Often we have gotten these
19 inbound requests to look at projects from people we
20 know. So, obviously, if we've done projects with the
21 person before and we have history, we know about them,
22 references from other people's respect in the space,
23 and then, essentially, whether they seem to be able to
24 execute the project that they've, you know, pitched.

25 MR. MITCHELL: And why is that important?

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1 Livingston's vision for this decentralized social
2 network is really compelling. And if you haven't
3 already -- he did a great speech at Money20/20 October
4 of last year about it. I presume you've seen a lot of
5 things he's written or said. It's very compelling.

6 So I think he's very -- I think his vision
7 for the future is the way the world will head, and he
8 seems to be a very charismatic leader. And he created
9 something that 300 million people used. That's really
10 impressive. Very few people have ever done that so...

11 MR. LEASURE: So I have seen some of his
12 stuff and let me get -- my impression is that he sort
13 of was leading or driving the vision for this project.

14 Was that your impression as well?

15 THE WITNESS: It seems like it, yeah.
16 He's -- he's -- in my meeting on May 24th of 2017, he
17 did most of the explaining of what they were doing.

18 MR. LEASURE: And then if I were an
19 investor -- potential investor in your shoes, one of
20 the things I might worry about is if they have crypto
21 people --

22 THE WITNESS: Uh-huh.

23 MR. LEASURE: -- right? People who've done
24 blockchain projects.

25 Did -- was that something you were worried

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1 THE WITNESS: Oh, just in like any venture
2 investment, you know, if somebody with no medical
3 background comes in and pitches you some, you know,
4 really incredible medical device and they've never met
5 anybody in the industry, you know, we're probably not
6 going to invest. So to the extent somebody has the
7 relevant experience, connections and skills, that's
8 going to make a more compelling investment.

9 MR. SCHLEGELMILCH: With respect to the Kin
10 token, who was the team that you were assessing?

11 THE WITNESS: We -- I met with Ted
12 Livingston and then Tanner Philp and Peter Heinke, and
13 I made my personal assessment on those people. I
14 believe some of my employees met with more of the
15 actual coders on their team.

16 MR. SCHLEGELMILCH: The Kik employee
17 coders?

18 THE WITNESS: I believe they were employees
19 of Kik. They might have already been employed by the
20 Kin Foundation. I don't know.

21 MR. SCHLEGELMILCH: Okay. Thank you.

22 MR. LEASURE: Particularly with respect to
23 the Kik people, broadly speaking, that you met with,
24 what were you looking for?

25 THE WITNESS: Oh, I actually think Ted

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1 about?

2 THE WITNESS: It was a concern. I believe
3 that Pantera staff met with their crypto people and
4 came to the conclusion that they were strong and -- you
5 know, so we proceeded with the investment.

6 MR. LEASURE: Got it.

7 MR. SCHLEGELMILCH: Did you go to -- or did
8 anyone on your staff go to Tel Aviv to meet with
9 anyone?

10 Or -- well, where -- do you recall where
11 your people met with their people?

12 THE WITNESS: I don't -- I don't believe
13 anyone went to Tel Aviv. I would imagine it's mainly
14 telephonically.

15 MR. SCHLEGELMILCH: Thank you.

16 BY MR. MURTHA:

17 **Q Back to the market in the spring of 2017 --**
18 **we already sort of discussed this -- but there were**
19 **lots of new ICOs and tokens coming to market?**

20 A Yes.

21 **Q Would you describe the ICO market as being**
22 **white-hot?**

23 A Yes. There was a time that it was.

24 **Q Has it slowed in 2018 as compared to 2017?**

25 A Yes.

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Q And why is that in your opinion?

A I think the major driver is the entire blockchain asset space has had many price cycles over seven years, had a huge one in 2013 where it went up 82x year-on-year and then it came down 80 percent. It had another one where it went from \$200 in 2014 to \$20,000 in 2017, and it's now in a bear market.

I think that kind of massive bear or overlay has, you know, been the main driver of then the applications built on top of blockchains that ICOs or the protocol tokens after their auctions.

MR. LEASURE: Just purely for your opinion about this, if I speculate about a future where people in different industries and for different uses use decentralized blockchain project, do all sorts of things, one of the main barriers I see to that is the volatility you just described.

THE WITNESS: Uh-huh.

MR. LEASURE: In other words, I can't see a future where a stable, you know, vehicle for different types of transactions happens if things are up 80x one year and down 50 percent the next year.

Do you have a reaction to that?

THE WITNESS: Yes. Well, they're obviously a limiting factor right now in their adoption for

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MR. LEASURE: In other words, volatility has to decline for something to be widely adopted in order for volatility to incline.

THE WITNESS: Yes. And so Bitcoin has blockchain generally distributed -- like the technology -- has many, many uses, one of which is cryptocurrency. But others are store of wealth, international money transfers, there are a lot of use cases. And it's currently really good at storing wealth. People have stored things -- about 170 billion today of value -- in there and it's worked.

The very last thing it'll be good at is, you know, buying a cup of coffee. It's, you know...

MR. LEASURE: Got it. Thank you. I was purely picking your brain on that.

MR. SCHLEGELMILCH: But isn't that the sort of use case for Kin is to buy a cup of coffee?

THE WITNESS: No. I actually would say that the way to think about the Kin token is it's to incentivize people to create the content that people love on a social network. And, again, if we can use the dominant social network Facebook as the example, two billion people spend 50 minutes a day working for Facebook and they don't get any compensation. They create all of the content. That's amazing.

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certain things. The perspective I would take on that is we've been taught that volatility's bad in a capitalizing pricing mentality, but a significant fraction, a vast majority of the volatility in blockchain assets has been to the upside over time. There's been some bear markets.

So there are companies that offer, essentially, insurance on this, but they're really taking out the main -- you know, more than 50 percent of the time the market goes up, so the volatility is often good.

And then I've been focused on ten or 20 years down the road. In ten years, Bitcoin or whatever the currently successful blockchain is in 2028 will have volatility just like a normal, you know, currency out there. So, you know, we have to get from here to there, but, ultimately, they will be so widely held that there won't be these booms and busts. And, essentially, the -- once it's widely adopted that problem will take care of itself, but it will take time.

MR. LEASURE: We'll still have the chicken and the egg problem. Again, from an outsider thinking about it.

THE WITNESS: Yeah.

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In the Kin Ecosystem, the 60 percent of tokens that have not been distributed yet -- they weren't sold or given to the equity owners of Kik Messenger -- that will be distributed in what they call the Kin Rewards Engine. But it's pretty much analogous to the Bitcoin Block Reward.

So in Bitcoin, every ten minutes, currency's issued to the people who had provided a social good, and in Bitcoin a social good is providing security and verifying transactions.

In the Kin Ecosystem, the social good is creating photo-sharing applications, music applications, games, you know, selfie-sharing systems, whatever. And so that is what's creating the value and those are the people -- they'll distribute the tokens every day to the people that create the value on the system, include -- all the way down to -- some teen that uploads one selfie is going to get a tiny, tiny bit of a token and somebody who creates an incredible, you know, music thing -- service will get much more of the token.

MR. MURTHA: We've been going about an hour and 15 minutes or so. So let's go off the record at 10:54.

THE VIDEOGRAPHER: Going off the record.

1 The time on the monitor is 10:54 a.m.

2 (A brief recess was taken.)

3 THE VIDEOGRAPHER: We are back on the
4 record. This begins disc number two. The time on the
5 monitor is -- I'm sorry. We are still on disc number
6 one. The time on the monitor is 11:08.

7 BY MR. MURTHA:

8 **Q Back on the record at 11:08 after a brief**
9 **break during which you had no substantive conversations**
10 **about this investigation with SEC staff; is that right,**
11 **Mr. Morehead?**

12 A That's correct.

13 **Q Thank you. At some point, did you decide**
14 **to firmly commit to buying Kin tokens?**

15 A Yes.

16 **Q I guess I just want to understand the steps**
17 **in the purchase.**

18 **Initially, did you give Kik a -- like a**
19 **nonbinding expression of interest?**

20 A Yes.

21 **Q And what did you tell them that you wanted**
22 **to buy?**

23 A I told them that we wanted to buy
24 approximately 20 million of the tokens.

25 **Q But you -- at that point you weren't bound**

1 **investors paid?**

2 A Yes.

3 **Q Okay. And when you signed the SAFT what**
4 **did you expect Pantera was going to receive in return**
5 **for its \$20 million?**

6 A Tokens.

7 **Q Tokens specifically at a discount to the**
8 **public sale?**

9 A Yes.

10 MR. SCHLEGELMILCH: You mentioned a term
11 sheet.

12 Was that a written or an oral term sheet?

13 Maybe that's a dumb question but...

14 THE WITNESS: No. We had a written term
15 sheet that I believe was signed and executed that
16 described the ultimate terms that the SAFT would have.

17 BY MR. MURTHA:

18 **Q Okay. So initially it was more of an oral**
19 **or e-mail commitment, hey we want to invest 20 million,**
20 **right?**

21 A Yes.

22 **Q Then there was a nonbinding term sheet?**

23 A Yes.

24 **Q And then there was the SAFT that was**
25 **executed?**

1 **by anything?**

2 A No.

3 **Q Later, did you sign a contract for Pantera,**
4 **a SAFT?**

5 A We did.

6 **Q A simple agreement for future tokens?**

7 A Yes.

8 **Q Was Pantera bound by the SAFT?**

9 A I believe so yes.

10 **Q And that was the first binding promise that**
11 **Pantera had to Kik?**

12 A Yes. I believe we had a nonbinding term
13 sheet prior to that, and then we ultimately signed a
14 SAFT that was binding.

15 **Q What did Pantera agree to pay in the SAFT**
16 **contract?**

17 A I believe we ultimately bought 20 million,
18 I believe, and we paid the standard price that everyone
19 else in the SAFT contract paid.

20 **Q Which was what?**

21 A Oh, there's a lot of decimals. I think
22 it's 1.0001. Sorry. It was -- the market value, I
23 believe -- it was -- about 100 million was raised, and
24 we paid a 30 percent discount to the auction price.

25 **Q Okay. So the price that the public sale**

1 A Yes.

2 **Q Under the SAFT, could Pantera just cancel**
3 **at any time and get its money back?**

4 A I don't believe so, but I'm not sure.

5 **Q Pursuant to the SAFT, could you have**
6 **decided at the time of the public sale that you just**
7 **didn't want any Kin tokens?**

8 A I actually -- I don't remember the details
9 of our rights and obligations in the SAFT.

10 **Q Do you believe that at the time that you**
11 **signed the SAFT that Pantera had committed to**
12 **purchasing \$20 million worth of Kin tokens?**

13 A Yes.

14 **Q And is that what actually happened?**

15 A Yes.

16 MR. SCHLEGELMILCH: And your purchase was
17 denominated in U.S. dollars?

18 THE WITNESS: Yes.

19 BY MR. MURTHA:

20 **Q We discussed earlier --**

21 MR. MITCHELL: I just have one question.
22 We've been discussing \$20 million?

23 THE WITNESS: Yes.

24 MR. MITCHELL: Are you 100 percent sure
25 it's 20 million?

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1 THE WITNESS: No, I am not, actually. It's
 2 either 20 or 30 million, and I apologize I can't
 3 remember what the ultimate size is.
 4 MR. MITCHELL: There's some -- there's
 5 actually a SAFT. There is a document --
 6 THE WITNESS: Yes.
 7 MR. MITCHELL: -- you signed that has a
 8 number?
 9 THE WITNESS: Okay.
 10 MR. MITCHELL: Is that right?
 11 THE WITNESS: I'm sure there is. I just
 12 can't recall exactly how much we invested.
 13 MR. MITCHELL: Okay.
 14 THE WITNESS: I think it's either 20 or 30
 15 million.
 16 MR. MITCHELL: And if we wanted to just
 17 sort of lock down that number, is the written document
 18 the best place to look?
 19 THE WITNESS: Yes, it is, and if you give
 20 me just one more minute, I will -- because when the
 21 numbers changed, they cut us back, we originally asked
 22 for 20 million. I think then we ultimately did buy 15
 23 million, but, again, whatever the SAFT says is the
 24 fact.
 25 MR. MITCHELL: That's great. I just wanted

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1 to make sure.
 2 MR. LEASURE: We see in the e-mail some
 3 back-and-forth between you and Kik about the allocation
 4 and maybe even cutting back.
 5 THE WITNESS: Yeah, yes?
 6 MR. LEASURE: What can you tell me about
 7 that?
 8 THE WITNESS: Yes. And sorry, I think we
 9 originally asked for 20 million and we got cut back to
 10 15. And I do remember that was on a cell phone call
 11 while I was on holiday on June 16th maybe of 2017,
 12 somewhere around there, where they said that the deal
 13 was oversubscribed and that they had allocated us about
 14 25 percent less than we asked for. And that's what I
 15 recall.
 16 MR. LEASURE: I take it that was
 17 disappointing to you?
 18 THE WITNESS: It was frustrating.
 19 MR. LEASURE: Yeah. Why was the deal that
 20 was oversubscribed? Do you know the market dynamics
 21 around that or what was happening?
 22 THE WITNESS: I believe that the vast
 23 majority of deals in that year were oversubscribed.
 24 MR. LEASURE: There was a lot of demand for
 25 new token projects?

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1 THE WITNESS: Yes. Or said another way,
 2 maybe the price was potentially below the market
 3 clearing price.
 4 MR. LEASURE: Fair enough.
 5 BY MR. MURTHA:
 6 **Q We discussed earlier why you liked the idea**
 7 **of the Kin ICO, right, but why did you ultimately**
 8 **decide to buy Kin?**
 9 A My initial enthusiasm when I met with Ted
 10 Livingston and the management team persisted. However,
 11 some of my partners were less excited about the deal.
 12 We are, you know, professional investment managers, so
 13 we argue ideas through and decide whether investments
 14 are worth doing. And I was the strongest proponent of
 15 doing the deal. And -- although, we got cut back and
 16 that was frustrating, we -- I still certainly wanted to
 17 execute the deal because, I mean, I thought that the --
 18 essentially the price was below what it ultimately
 19 would trade at.
 20 **Q I guess, I can ask it more straightforward.**
 21 **Did you buy Kin tokens to profit?**
 22 A Yes.
 23 **Q And how did you expect to profit?**
 24 A Through capital gains.
 25 MR. SCHLEGELMILCH: Appreciation of --

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1 THE WITNESS: Appreciation of the value of
 2 the asset.
 3 MR. SCHLEGELMILCH: Thank you.
 4 BY MR. MURTHA:
 5 **Q How did you expect to realize your profits?**
 6 A That at some point we would have to sell
 7 the tokens to some other party.
 8 **Q And where did you expect to sell them? On**
 9 **a secondary exchange?**
 10 A Either -- yeah. On the secondary exchange
 11 or potentially in a single party transaction.
 12 **Q And who would actually profit your funds,**
 13 **investors or you personally?**
 14 A It is set up as a hedge fund, so it -- the
 15 investors get the bulk of the profits, but we do have
 16 performance allocations.
 17 **Q What is that performance allocation?**
 18 A 30 percent of the profits.
 19 MR. LEASURE: The ICO fund is at 3 and 35?
 20 THE WITNESS: Yes.
 21 MR. LEASURE: And that's higher --
 22 obviously mathematically, that's higher than 2 and 20.
 23 But was that a high allocation generally in
 24 the hedge fund space in 2017?
 25 THE WITNESS: No.

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1 MR. LEASURE: That's typical in the hedge
2 fund?
3 THE WITNESS: It's not typical.
4 MR. LEASURE: Oh, it's not typical?
5 THE WITNESS: Sorry. It is not typical.
6 MR. LEASURE: We're talking against each
7 other.
8 It's higher than is normal?
9 THE WITNESS: It is higher than the average
10 of the hedge fund industry.
11 MR. LEASURE: And why was the Pantera ICO
12 fund able to get investors -- from your perspective,
13 why were you guys able to drive that bargain with the
14 hedge fund investors?
15 THE WITNESS: We believed that the market
16 was small enough that the fund would, essentially, be
17 capacity constrained, that we couldn't keep growing it
18 to, essentially, infinite size, and so given that we
19 were spending a huge fraction of our investment
20 resources on what would ultimately be what we thought
21 was a smaller fund, and that we wanted to have a higher
22 pricing structure than a typical hedge fund.
23 MR. LEASURE: Why would you guys be -- why
24 would the fund be capacity constrained?
25 THE WITNESS: The -- because in deals like

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1 in the Kin deal, we were the largest investor, and we
2 ultimately got cut back. So we, you know -- that's, I
3 think, direct evidence that it was -- we could not
4 invest larger sums.
5 MR. LEASURE: There was more money in the
6 fund than there were token projects generally
7 available?
8 THE WITNESS: No. There was more money in
9 the fund than the incredibly small fraction of the
10 tokens available that we choose to invest in. We've
11 only invested in about two percent of the deals we've
12 seen.
13 MR. LEASURE: Got it.
14 THE WITNESS: We could, obviously, invest
15 in the other 98 and put a lot of money to work, but not
16 profitably.
17 MR. LEASURE: Right. You guys -- and I
18 think I have a number in my head from earlier today of
19 you guys invested in 45 deals so far?
20 THE WITNESS: Yes.
21 MR. LEASURE: And so there's an
22 exponentially more number of tokens than that?
23 THE WITNESS: Yes. We've invested in three
24 percent of the supposedly 1500 tokens that we could
25 have invested in.

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1 MR. LEASURE: Thank you for doing the math.
2 I couldn't.
3 What -- one thing I should have asked, is
4 there any -- particularly with respect to the Pantera
5 ICO funds, is there any leverage involved in your --
6 THE WITNESS: No. There's not.
7 MR. LEASURE: Is that possible to do in
8 this space?
9 THE WITNESS: I'm -- I presume somebody
10 would lend against it. We made a conscious decision to
11 not have leverage in the fund.
12 MR. LEASURE: How come?
13 THE WITNESS: We believed that the space,
14 as we've discussed before, already has significant
15 volatility and so there's no need for leverage.
16 MR. MENDEL: What does 3 of 30 mean?
17 THE WITNESS: The fund charges an annual
18 management fee of three percent of assets under
19 management and then to the extent there are realized
20 profits -- I'm sorry. To the extent there are profits,
21 they are -- 30 percent of those profits are allocated
22 to management company.
23 MR. MENDEL: Are those separate percent
24 allocated upon sale of the asset or earlier?
25 THE WITNESS: No. It's an annual net asset

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1 value market to market.
2 MR. MENDEL: What was the industry standard
3 at the time?
4 THE WITNESS: The industry -- the hedge
5 fund industry has historically been 2 percent
6 management fee and 20 percent performance fee.
7 MR. MENDEL: Thank you.
8 BY MR. MURTHA:
9 **Q Did you buy Kin tokens to use them, to**
10 **spend them within the Kik app or within any ecosystem**
11 **they might create?**
12 A I imagine that we would have used a small
13 percentage of them, but we principally bought it for
14 capital appreciation.
15 **Q So is all the Kin that you bought in the**
16 **ICO fund?**
17 A Yes.
18 **Q And so you would have used the Kin tokens**
19 **that reside in the ICO fund to purchase things within**
20 **the Kin Ecosystem?**
21 A I -- only for kind of experimental reasons
22 to decide if it's a good investment. It would be an
23 immaterial amount.
24 **Q Is that something you would have to clear**
25 **with the fund investors before doing or you can just**

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1 **unilaterally do that?**

2 A We do have the ability to use tokens for
3 staking and other purposes to test systems, but it
4 would -- again, it would be a very immaterial amount.

5 **Q So, I mean, the primary purpose for your**
6 **investing in Kin was to profit, to make money for your**
7 **investors?**

8 A Yes. We were principally seeking capital.
9 Appreciation on the tokens.

10 **Q I've read a lot of your e-mails.**

11 **Did you consider the Kik ICO to be a**
12 **watershed event for finance?**

13 A Yes. I think I said Seminole event.

14 **Q Okay. I think I've seen both.**

15 A Okay.

16 **Q Can you explain that to me? Just explain**
17 **to us why that was your view?**

18 A Yes. So application tokens built on top of
19 other blockchains had been around since Auger in
20 September of 2014. All of those projects were small
21 projects with no working product -- prototype product
22 and, essentially, no active community. And Kin was the
23 first project that would bring a functioning product
24 and a massive community that probably would migrate
25 from Kik Messenger to the Kin Ecosystem.

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1 **attention to the first page which is bearing the Bates**
2 **stamp ending in 47.**

3 **On Saturday May 27th you write to Ted,**
4 **Peter and Tanner, and the second sentence says, "I**
5 **think this is a watershed event for finance."**

6 **So my question previously was: What did**
7 **you mean when you wrote watershed event for finance?**

8 A As far as I know, Kik is the first,
9 essentially, kind of existing company to incubate or
10 spin off, inspire a protocol token to build a
11 decentralized network. All the previous protocol
12 tokens were, essentially, unconnected to any real
13 community, and so I believed it would start a pattern
14 of existing companies creating or spinning off
15 decentralized application tokens like the Kin
16 Ecosystem.

17 **Q You use the -- you specifically used the**
18 **word finance. Is that because these ICOs are a**
19 **financing event, a fundraising event?**

20 A No. And that's actually why I asked you to
21 define it. I meant, essentially, the financial
22 industry.

23 **Q So why was this a watershed event for the**
24 **financial industry?**

25 A Because it was the first, essentially,

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1 **Q Was the Kin ICO a finance event in your**
2 **view?**

3 A Can you define what finance means?

4 **Q Well, let's, I guess, find out what you**
5 **meant.**

6 (SEC Exhibit No. 162 was marked for
7 identification.)

8 BY MR. MURTHA:

9 **Q I'm going to hand you a document which I**
10 **have marked as Exhibit 162, which is a multi-page**
11 **document e-mail bearing the Bates label PANT-000000047**
12 **which is an e-mail from Ted Livingston to Dan Morehead,**
13 **Tanner Philp, copying Peter Heinke; do you see that?**

14 A I do.

15 **Q First, do you recognize this document?**

16 A It seems legitimate. I haven't seen it in
17 a year, but it seems like a -- my e-mail.

18 **Q Do you recall receiving this e-mail?**

19 A I don't recall it, but it...

20 **Q Do you have any reason to believe you**
21 **didn't receive this e-mail?**

22 A No. No, I don't have any reason to believe
23 that.

24 **Q Okay. So just -- we were talking about a**
25 **watershed event for finance. So I'll just draw your**

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1 existing real company to incubate a protocol token. I
2 think in time there's going to be dozens of these.
3 It's -- there have been a few, but I have to say I'm
4 still early on that prediction.

5 **Q Is the blockchain industry a finance**
6 **industry?**

7 A No.

8 **Q I guess I'm confused then. I am still**
9 **struggling to understand what you meant watershed event**
10 **for, specifically, the word finance.**

11 A I think the best way to describe it is, in
12 the past, sources of capital were just standard things,
13 like, you know, debt and equity. And that there's now
14 a new thing which is different from both of those
15 called protocol tokens that, when we look back 20 years
16 from now, will be seen as very important. And I
17 believe Kik is the first, essentially, real company to
18 incubate a protocol token.

19 **Q I see. So if I'm understanding you right,**
20 **I think what you're saying is you view ICOs as a source**
21 **of capital for companies?**

22 A No. I specifically don't believe that's
23 true. Protocol tokens are not companies.

24 **Q So they -- so then you view ICOs as a**
25 **source of capital for protocols?**

1 A Yes. A good example would be Bitcoin.
 2 There is no Bitcoin, Incorporated that is the company
 3 behind Bitcoin. The token is very important, and
 4 Bitcoin, I think, is going to be seen as a very
 5 profound impact on the world, generally, but there is
 6 certainly no company behind Bitcoin.

7 **Q When Pantera invested its 15 or**
 8 **\$20 million, whatever the SAFT says, was it providing a**
 9 **source of capital to Kik?**

10 A No.

11 **Q Was it providing a course of capital to the**
 12 **Kin protocol?**

13 A We're providing funding for the Kin
 14 Foundation that would build this software, which would
 15 run the Kin Ecosystem.

16 MR. LEASURE: I don't want to get tied up
 17 on the term protocol versus company.

18 Would you agree that you invested in the
 19 Kin project?

20 THE WITNESS: Yes.

21 MR. LEASURE: Is that a fair term?

22 THE WITNESS: That's a very good term.

23 MR. LEASURE: Pointing to a few other parts
 24 of your e-mail on the first page here at the timestamp
 25 9:44 p.m. -- but timestamps are confusing.

1 Later down in the chain, you wrote -- tell
 2 me if you see where I am -- "Pantera launched the first
 3 digital asset fund in the United States and the first
 4 blockchain-only venture fund. We've raised
 5 \$200 million for this ecosystem. I want to be a big
 6 part of the first transformation of a real company into
 7 a token-based ecosystem."

8 Pausing on that, you saw the Kin project as
 9 transforming a real company, Kik, into a token-based
 10 ecosystem; is that right?

11 THE WITNESS: That's potentially not the --
 12 it's an inelegant way to say -- instead of
 13 transformation, it should be incubating or, you know,
 14 bringing to life a token-based ecosystem. In, I
 15 believe, that they will -- if they're not already
 16 completely separate, in time they would be completely
 17 separate.

18 The Kin company -- or sorry -- the Kin
 19 Ecosystem and the Kik Messenger company will ultimately
 20 be completely separate, and one could live and be very
 21 successful and one could die and go away. So it is
 22 not -- I would rather have said the first company to
 23 incubate a protocol project.

24 BY MR. MURTHA:

25 **Q Wasn't one of the things that attracted you**

1 **to the Kin investment the Kik messaging app's user**
 2 **base?**

3 A Yes.

4 **Q So isn't the Kik messaging app important to**
 5 **the development and implementation of the Kin token?**

6 A It is important, but my point here is -- on
 7 that sentence that we're focused on, it is not Kik
 8 Messenger, Inc. or whatever the -- you know, company
 9 name -- full name is -- transforming into the Kin
 10 protocol token or project -- Kin project, they're just
 11 incubating it, and they actually -- if they're not
 12 already, they will split and be separate entities.

13 MR. LEASURE: So it sounds like you --
 14 your -- you at -- your testimony is you at the time
 15 then and now are less focused on what happens to Kik
 16 the company, right?

17 THE WITNESS: Yes. And I think in the --
 18 yes. I'm not focused on Kik the company.

19 MR. LEASURE: You're focused on Kin as a
 20 project that you participate in and a seed investor
 21 going forward?

22 THE WITNESS: Yes. Like, I'm not focused
 23 on what Satoshi Nakamoto is doing today.

24 MR. LEASURE: Right.

25 THE WITNESS: He's off doing -- he/she,

1 whatever it is -- is off --

2 MR. LEASURE: Do --

3 THE WITNESS: Yeah. Is doing something
 4 different, and the project is wildly successful without
 5 him. And I think Kin Ecosystem could be wildly
 6 successful without Kik.

7 MR. LEASURE: The company?

8 THE WITNESS: The company. Kik Messenger
 9 Inc. or whatever the thing or name is.

10 MR. LEASURE: Okay. And where you see --
 11 where we see transformation here, you then and now
 12 would prefer a term like incubation or something like
 13 that? Seeding -- Kik seeding the project, something
 14 like that?

15 THE WITNESS: Yes. That's a much better
 16 term.

17 MR. LEASURE: Okay. You write -- in a
 18 parenthetical after that, you write, "this ain't
 19 crowdsource vapor-ware."

20 Is what -- I don't know what vapor-ware is.
 21 What do you mean by that?

22 THE WITNESS: It's a term to imply a
 23 software project that hasn't actually proven its
 24 development capabilities.

25 MR. LEASURE: And how was the Kin project

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1 at this point in May different from that?

2 THE WITNESS: That they have -- the

3 developers that would be working on this project had

4 actually done a three-year trial or test of something

5 similar, their Kin point system -- Kik point system.

6 I'm sorry.

7 MR. LEASURE: That's fine. So the

8 developers' past success and experience in that

9 project -- in that prior project distinguished the Kin

10 project from other things out there?

11 THE WITNESS: Yes.

12 MR. LEASURE: Got it. The next paragraph

13 begins, "We put all our resources behind helping you

14 succeed." The paragraph goes on from that.

15 What did you mean by that?

16 THE WITNESS: That, if and when, we

17 partnered or invested in the Kin tokens we would try

18 and be helpful in building the community and helping

19 them be successful.

20 MR. LEASURE: And by building the

21 community, are you talking about attracting other

22 investors to participate in?

23 THE WITNESS: Other investors or,

24 essentially, raising the profile of the project because

25 these are community based. You need, you know, lots of

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1 people to build out these projects.

2 MR. LEASURE: The paragraph goes on, and I

3 don't need to read it.

4 But do you agree it describes a possibility

5 of you discussing the Kin project in the Pantera

6 investor letter? Do you see that?

7 THE WITNESS: I do see that, yes.

8 MR. LEASURE: And did Pantera do that?

9 THE WITNESS: We have written about Kin in

10 our investor letter.

11 MR. LEASURE: And who's the audience of

12 that investor letter?

13 You had -- you described it here as 9,000

14 very sophisticated investors; do you see that?

15 THE WITNESS: Yes?

16 MR. LEASURE: And is that accurate?

17 THE WITNESS: Yes.

18 MR. LEASURE: And investors just in the

19 crypto space or investors in various hedge funds?

20 Can you help me unpack who the audience of

21 this is?

22 THE WITNESS: Yes. We have an audience

23 that has been either interested in our, essentially,

24 legacy, you know, hedge funds from prior to the

25 blockchain time and then new people who are more

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1 interested in the blockchain aspect.

2 MR. LEASURE: Crypto enthusiasts?

3 THE WITNESS: Yes.

4 MR. LEASURE: And is it in the event

5 that -- after this, did Pantera help advertise or raise

6 awareness of the Kin project?

7 THE WITNESS: We did write about it in our

8 investor letter, and we did share it with those 9,000

9 readers.

10 MR. LEASURE: And you guys did that for the

11 purpose of attracting other people to consider buying

12 either SAFTs or the public sale?

13 THE WITNESS: Yeah. I would say there's

14 probably several reasons we write an investor letter,

15 one of which is to help the projects that we're

16 invested in, whether they're venture projects or

17 others, and, you know, also it's to communicate with

18 potential investors that might invest in other products

19 that we sell.

20 MR. LEASURE: Got it. This question is

21 going to be so basic that it may seem obvious, but you

22 said one of the reasons you communicate about a project

23 like Kin in your investor letter is just to help the

24 projects along you're invested in.

25 Is it right that it helps the projects that

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1 you're invested in to raise awareness of them?

2 THE WITNESS: Yes.

3 MR. LEASURE: And to attract maybe people

4 to participate also in that project?

5 THE WITNESS: To participate in several

6 ways; one is potentially to invest in it, but also to

7 get on their slack and learn what's going on, to read

8 the white paper, to start using the product that they

9 have, even just to get the community going.

10 MR. LEASURE: Okay.

11 MR. WARKOL: Just to be clear, maybe I'm

12 wrong about this, but I presume your investor letter is

13 predominantly to get people to invest with you not

14 necessarily without you?

15 THE WITNESS: Yes, yeah. And we talk about

16 dozens of different things we think are interesting in

17 the space. Kin is one of them.

18 MR. LEASURE: And so you guys, in the

19 summer of 2017, did -- you guys, being Pantera -- did

20 something to help raise awareness of the Kin project?

21 THE WITNESS: Yes. I would say it's, you

22 know, a couple of percent of the words we published

23 over the last two years, but we, certainly, you know --

24 we certainly did a bit to help people be aware of the

25 project.

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1 MR. SCHLEGELMILCH: And the recipients of
2 your investor newsletter are sort of necessarily --
3 this is going to sound like a dumb question -- your
4 investors, correct?

5 THE WITNESS: They're either our investors
6 or our prospective investors.

7 MR. SCHLEGELMILCH: And what that means,
8 does it not -- it means that they have a certain level
9 of financial wherewithal and sophistication in order to
10 be able to invest in a hedge fund?

11 THE WITNESS: Yes. We send a separate
12 letter to accredited investors in a much -- in a, you
13 know -- in a different one to people that we're not
14 sure -- we don't believe are accredited investors, you
15 know, redacting a lot of information which...

16 BY MR. MURTHA:

17 **Q Did anyone ever tell you that -- after the**
18 **ICO, that Kik Interactive would become a separate and**
19 **distinct entity from the Kin Ecosystem?**

20 A I've always assumed that would be the case.
21 I don't --

22 **Q What do you base that assumption on?**

23 A Reading the Kin white paper. So it's not
24 an assumption. I read the Kin white paper, and it said
25 that it -- the Kin Foundation would take over

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1 governance of the Kin Ecosystem.

2 MR. MENDEL: Did anyone from Pantera ever
3 ask to look at Kik's financial statements?

4 THE WITNESS: I don't know if anyone did.
5 I'm not aware that anyone did, and I certainly have not
6 seen it. Oh, and I -- I'm sorry for my memory. We
7 made two 7.5 million investments in Kik, and so it's a
8 \$15 million investment.

9 MR. SCHLEGELMILCH: Both through SAFTs?

10 THE WITNESS: Yes.

11 MR. SCHLEGELMILCH: Okay.

12 THE WITNESS: Apologies. I couldn't keep
13 the numbers straight in my head.

14 I guess I want to amplify the point that a
15 couple percent of our text was about Kin Ecosystem, and
16 the, you know -- 99 percent of the reason we write the
17 investor letter is to communicate with prospective and
18 current limited partners.

19 And I would think it highly unlikely that
20 any of them would actually go and invest in the Kin
21 token themselves. That is not something I think any --
22 I would think be -- our principal purpose of writing
23 the investor letter is to get investors into our own
24 fund rather than to fund raise for other projects.

25 BY MR. MURTHA:

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1 **Q Just because we got onto the topic of the**
2 **white paper I'm going to hand you a document that's**
3 **been previously marked as Exhibit 2, which is a**
4 **multi-page document bearing the Bates stamp KIK 000001.**
5 **It's entitled, "Kin: The Decentralized Ecosystem of**
6 **Digital Services For Daily Life."**

7 **Take your time to review it, but I'll be**
8 **pointing you to specific sections.**

9 **My first question is: Have you ever seen**
10 **this document before?**

11 A I have.

12 **Q Does this appear to be a copy of the Kin**
13 **white paper?**

14 A It is. It appears to be.

15 **Q Did you read the Kin white paper?**

16 A I did read it in -- about a year ago or,
17 you know, June of 2017.

18 **Q Prior to making your investment?**

19 A Yes.

20 **Q Did it impact your decision on whether or**
21 **not to purchase Kin?**

22 A Yes.

23 **Q Why?**

24 A I thought it was very well written, and it,
25 essentially, bolstered the case that was made verbally

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1 by the Kin management and -- the Kik management team.

2 **Q We've used the term the Kin Ecosystem, I**
3 **think, throughout your testimony so far today. So I**
4 **guess I'll just ask: You're familiar with the concept**
5 **of the Kin Ecosystem?**

6 A Yes, I am.

7 **Q And what is the Kin Ecosystem in your**
8 **opinion?**

9 A The Kin Ecosystem is a social network that
10 is decentralized, and so it is not owned or controlled
11 by a single entity.

12 **Q Who did you understand would be responsible**
13 **for creating or building the Kin Ecosystem?**

14 A The Kin Foundation.

15 **Q Can I point you to page 5 of Exhibit 2,**
16 **please?**

17 A I'm on page 5.

18 **Q Okay. Directing your attention to the**
19 **third paragraph, it reads -- I'm going to read slowly**
20 **for the benefit of our court reporter -- "To foster an**
21 **ecosystem that is not only open and decentralized but**
22 **also more compelling than its traditional counterpart,**
23 **Kik must create a series of new products, services and**
24 **systems. Building a decentralized system is a complex**
25 **process, and the transition to it must be done in a**

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1 measured and responsible way over time. The following
2 subsections outline Kik's plan for launching an
3 entirely new platform, the Kin Ecosystem."

4 Does this paragraph mention that anyone
5 other than Kik would be responsible for building the
6 Kin Ecosystem?

7 A The third paragraph does not.

8 Q I'm sorry. I'm not sure I understand your
9 answer.

10 Could you explain?

11 A The paragraph that you referred to does not
12 contain any references to entities other than Kik
13 building the Kin Ecosystem.

14 Q In fact, it says that Kik will create the
15 ecosystem, does it not?

16 A It does say that.

17 Q Okay. Who did you understand would build
18 the value of Kin as of the date that you received your
19 Kin?

20 A Although this paragraph doesn't state that
21 anyone else would build any of the software, on the
22 subsequent page, the foundation and governance
23 paragraphs do state that the Kin Foundation would be
24 separate and would govern the growth of the Kin
25 Ecosystem.

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1 Q I'm sorry. Could you just point me to the
2 paragraph that you're looking at, sir?

3 A On page 6 --

4 Q Uh-huh.

5 A -- the first paragraph on subsection A,
6 foundation for open governance --

7 Q Right.

8 A -- says that Kik would, essentially,
9 incubate the project, but then they would form a Kin
10 Foundation. And then that nonprofit organization
11 would, quote, oversee fair and productive growth of the
12 Kin Ecosystem.

13 And it is my belief that the Kin Foundation
14 would be ultimately responsible for building the Kin
15 Ecosystem.

16 Q Ultimately responsible, but even reading
17 this paragraph as an initial matter, it's Kik who will
18 work to structure and form the Kin Foundation?

19 A Yes.

20 MR. MITCHELL: At the time you were making
21 your investment with Kik, anytime before the actual
22 time you got tokens, did you have an understanding of
23 how long the, I guess what you call the incubation
24 period would last before the Kik -- the Kin Ecosystem
25 foundation took over?

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1 THE WITNESS: I don't believe I ever was
2 told a specific time, but I thought it would be
3 measured in months, not years or decades.

4 MR. LEASURE: Have you ever met anyone from
5 the Kin Ecosystem foundation?

6 THE WITNESS: I am unaware of who is
7 employed by the Kin Foundation.

8 MR. LEASURE: So prior to or subsequent to
9 the purchase, you never separately met with someone
10 from the foundation or talked to them?

11 THE WITNESS: Not that I know, but
12 potentially some of the people I've met with have been
13 seconded to that foundation or have quit Kik. I don't
14 know. Like maybe Tanner Philp is now at the
15 foundation. I don't know.

16 MR. LEASURE: Right. They can wear
17 multiple hats or have taken off a Kik hat and worn a --
18 and be in the foundation, right?

19 THE WITNESS: Right. They could have
20 resigned from Kik and joined the foundation
21 potentially.

22 MR. LEASURE: You don't know?

23 THE WITNESS: I don't know. I have not
24 knowingly met someone from the Kin Foundation.

25 MR. LEASURE: Well, when you were -- you

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1 did talk to people from Kik, right?

2 THE WITNESS: Yes.

3 MR. LEASURE: And did -- in any meeting you
4 were in, did you ever ask or clarify are you a
5 foundation person or a Kik person?

6 THE WITNESS: No.

7 MR. LEASURE: Why not?

8 THE WITNESS: I imagine it would take
9 several months to set up the foundation, and I haven't
10 met with someone from Kik for some time.

11 MR. LEASURE: Fair enough.

12 THE WITNESS: But I did imagine at least
13 some of the people working on the project at Kik would
14 ultimately resign from Kik and become employed by the
15 foundation.

16 MR. LEASURE: Yeah. You expected Kik
17 personnel, that's fair to call it this way, to seed the
18 foundation as well?

19 THE WITNESS: A few potentially, and then
20 they'd hire people directly in the markets.

21 MR. LEASURE: Got it.

22 BY MR. MURTHA:

23 Q Do you know the date when you -- when
24 Pantera actually received its Kin tokens?

25 A I believe it was -- we got half of them

1 on -- around July 5th of 2017, and then, I believe,
2 we're going to get the other half right around now,
3 that there was a one-year lockup period.

4 **Q So you received your Kin tokens on**
5 **July 5th? Are you sure?**

6 A No. I'm not sure. We funded -- I'm sure
7 we funded 7.5 million on June 30th, and I believe we
8 funded the other 7.5 million a week or two after that.
9 Oh, I'm sorry. And then we would have received the
10 tokens, I believe, in September when they distributed
11 tokens around September 12th.

12 **Q Right. So it's our understanding that you**
13 **entered into a SAFT in late June early July which**
14 **entitled you to the receipt of tokens in the future**
15 **after Kin -- Kik had completed the public Kin ICO?**

16 A Yes. I misspoke. We received tokens, I
17 believe, around September 12th.

18 **Q Around September 12th. Okay. So if on**
19 **September 12th Kik --**

20 MR. MITCHELL: Let's -- let me just use the
21 date they got the tokens. Sorry. Continue.

22 BY MR. MURTHA:

23 **Q Okay. It's our understanding -- September**
24 **27th?**

25 MR. MITCHELL: Yes. There's a date in

1 and the community has made it incredibly successful.
2 So an attempt would be made to do the same in Kik.

3 **Q Do you think that attempt would have been**
4 **successful?**

5 A Probably.

6 **Q Why?**

7 A There is -- almost all the other projects
8 that are building out protocol token projects have less
9 money and less compelling business opportunity as
10 social networking is. So I think it would be it -- it
11 would likely be successful.

12 Obviously, if Kik were thriving, it would
13 be more successful or easier, but I think Kin
14 Foundation could be highly likely to be successful.

15 **Q But the -- like what we just said, Kik**
16 **hadn't built the Kin Foundation as of the date you**
17 **received the tokens. So there's no entity to sort of**
18 **foster the creation of this ecosystem at all on that**
19 **date.**

20 **So, again, if Kik had just walked away, do**
21 **you think the project could have just continued?**

22 A If Kik had gone bankrupt or walked -- what
23 do you mean by walked? Just like divorced itself from
24 the project?

25 **Q Yeah. Kept \$100 million and divorced**

1 September when you received tokens?

2 THE WITNESS: That's fine, yes.

3 MR. MURTHA: I'll accept that.

4 MR. MITCHELL: Okay. As of that date.

5 BY MR. MURTHA:

6 **Q Let's assume for purposes of this**
7 **conversation that September 27th is the date that you**
8 **received them?**

9 A Yes.

10 **Q If on September 27th you receive your**
11 **tokens, Kik just shuts its doors and walks away from**
12 **building the Kin Ecosystem, what happens?**

13 A The Kin Foundation has just raised
14 \$100 million. They have many, many years of runway to
15 build out the Kin Ecosystem. They would continue that
16 process.

17 **Q I think when we just looked at the white**
18 **paper, in fact, you had pointed us to page 6 of**
19 **Exhibit 2 that Kik needed to work to structure and form**
20 **the Kin Foundation.**

21 **So if the Kin Foundation had not been**
22 **formed as of the date you received your tokens and Kik**
23 **just walked away from the project, what happens?**

24 A Well, we've seen an example of that.
25 Satoshi Nakamoto walked away from the Bitcoin project,

1 **itself in the project?**

2 A Well, the project would only be successful
3 if there was funds available for paying developers.

4 MR. MITCHELL: And at the time that you
5 were making -- at this time before you received your
6 Kin token, did you have an expectation of what funds
7 would be used to pay for developers?

8 THE WITNESS: Yeah. The -- our expectation
9 would be that the proceeds from the token sale would be
10 used over many years to hire developers and build out
11 the Kin Ecosystem.

12 MR. MITCHELL: Okay. Separate sort of
13 related question. Since the tokens have been
14 distributed, has Pantera -- you or Pantera sort of
15 worked to develop the technology or -- that needs to be
16 created for the Kin -- for there to be a Kin Ecosystem?

17 THE WITNESS: We've had several technical
18 meetings to give them advice on the technology.

19 MR. LEASURE: With whom?

20 THE WITNESS: I met with Ted Livingston and
21 Tanner in October of last year and then partners of
22 mine have had calls and e-mail discussions with them
23 over time.

24 MR. LEASURE: Kik people?

25 THE WITNESS: I'm sorry. With people that

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1 are employed by Kik.
 2 MR. LEASURE: Got it.
 3 MR. MURTHA: We're going to go off the
 4 record at 11:54.
 5 THE VIDEOGRAPHER: This is disc number one
 6 going off the record. The time on the video monitor is
 7 11:55 a.m.
 8 (Recess.)
 9 This begins disc number two. We are back
 10 on the record. The time on the video monitor is 1:06
 11 p.m.
 12 BY MR. MURTHA:
 13 **Q Back on the record at 1:06 p.m. after a**
 14 **lunch break. During the break that we just had, Mr.**
 15 **Morehead, you had no substantive conversations with the**
 16 **SEC staff about this investigation; is that right?**
 17 A That is correct.
 18 **Q Thank you. I'd just like to note for the**
 19 **record that before our first break this morning, we**
 20 **were joined by Brent Mitchell who is also designated as**
 21 **an officer of the Commission on the formal order that**
 22 **we showed you this morning. Also want to note for the**
 23 **record that this afternoon in addition to Ryan Walker,**
 24 **an SEC intern we are now being joined by Joseph**
 25 **Krmpotich.**

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1 **And I assume that there's no objection from**
 2 **counsel or the witness?**
 3 A No.
 4 MR. WARKOL: Correct.
 5 BY MR. MURTHA:
 6 **Q Thank you.**
 7 MR. SCHLEGELMILCH: Mr. Morehead, I just
 8 have a few follow-up questions on some of the items we
 9 talked about this morning.
 10 I understand that Pantera received during
 11 the sort of distribution event half of the Kin tokens
 12 that it had purchased through the SAFT; is that
 13 correct?
 14 THE WITNESS: That is correct.
 15 MR. SCHLEGELMILCH: And the Kin tokens that
 16 Pantera received at that time, they were fungible with
 17 any other Kin tokens; is that right?
 18 THE WITNESS: I believe so.
 19 MR. SCHLEGELMILCH: Okay. And were there
 20 any limitations or restrictions on the resale of the
 21 tokens that Pantera received at that time?
 22 THE WITNESS: I don't think so. I don't
 23 think so.
 24 MR. SCHLEGELMILCH: Thank you.
 25 MR. MITCHELL: Did Kik -- did anyone from

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1 Kik ever communicate to Pantera a limit on what Pantera
 2 could do with the tokens after they were delivered?
 3 THE WITNESS: No. I don't -- I'm not aware
 4 of any.
 5 MR. SCHLEGELMILCH: One other question.
 6 Would that have been relevant to your
 7 decision-making -- based on what we've heard earlier
 8 today about sort of a time horizon that you had for the
 9 assets, if there had been a limitation on the resale
 10 like -- or, essentially, a limitation requiring Pantera
 11 to hold it for a certain amount of time, would that
 12 have been a relevant consideration to your
 13 decision-making about the asset?
 14 THE WITNESS: There is a restriction on
 15 half of the tokens that are locked up for one year.
 16 MR. SCHLEGELMILCH: Meaning they're not
 17 even issued until --
 18 THE WITNESS: Yes. They're -- they have
 19 not yet been issued. They're being issued right now,
 20 one year after. So that was part of our analysis, but
 21 it wasn't a large part.
 22 MR. SCHLEGELMILCH: But the fact that the
 23 tokens that you received at the token distribution
 24 event in September of 2017, those had no limitations on
 25 resale and was the fact that it had no limitations on

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1 resale something that you considered when making your
 2 investment decision?
 3 THE WITNESS: We considered it.
 4 MR. SCHLEGELMILCH: Okay. Thank you.
 5 MR. MITCHELL: I'm going to ask a -- I've
 6 already marked as Exhibit 163 -- I made a copy of it
 7 during our lunch break. I got the SAFT.
 8 This is Exhibit 163 with the Bates number
 9 PANT-000000951 to 957. If you could just flip through
 10 it and just tell me do you recognize the document?
 11 (SEC Exhibit No. 163 was marked for
 12 identification.)
 13 THE WITNESS: I don't recall this
 14 specifically, but it looks like a very standard SAFT
 15 contract.
 16 MR. MITCHELL: If you look at the last
 17 page --
 18 THE WITNESS: Yes.
 19 MR. MITCHELL: -- is that your signature?
 20 THE WITNESS: It appears to be my
 21 electronic signature.
 22 MR. MITCHELL: Okay. And do you know whose
 23 signature is on the top part of the document?
 24 THE WITNESS: It appears to be Ted
 25 Livingston's electronic signature.

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1 MR. MITCHELL: Okay. So is this the SAFT
2 document that we talked about earlier?
3 THE WITNESS: I have no reason to doubt
4 that it isn't.
5 MR. MITCHELL: We earlier talked about some
6 amounts and stuff?
7 THE WITNESS: Yes.
8 MR. MITCHELL: If you turn to the second
9 page over --
10 THE WITNESS: Yes.
11 MR. MITCHELL: -- am I right that the
12 SAFT -- let me start over.
13 In this SAFT, did Pantera agree to purchase
14 \$15 million worth of tokens?
15 THE WITNESS: Yes, we did.
16 MR. MITCHELL: And it was on -- and it's on
17 or about July 6th, 2017?
18 THE WITNESS: Yes.
19 MR. MITCHELL: And did Pantera purchase
20 from Kik Interactive Inc.?
21 THE WITNESS: Yes.
22 MR. MITCHELL: And on page 4, do you see
23 the section that says purchaser representation?
24 THE WITNESS: I do see that section.
25 MR. MITCHELL: And then B says, "The

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1 purchaser has been advised that the right created by
2 this instrument is a security."
3 Do you see where it says that?
4 THE WITNESS: I do see that.
5 MR. MITCHELL: Was that something that you
6 understood at the time that you entered into a -- that
7 Pantera entered into the transaction with Kik?
8 THE WITNESS: I don't remember reading it.
9 MR. MITCHELL: Okay. Do you remember
10 discussing with anyone from Kik about whether their
11 sale of a SAFT was a sale of a security?
12 THE WITNESS: I don't remember having that
13 discussion.
14 MR. MITCHELL: There is a -- there's a term
15 in the -- on the third page at the top.
16 Do you see there's a paragraph that has the
17 word termination as its title?
18 THE WITNESS: Yes.
19 MR. MITCHELL: Okay. I'm just going to
20 read it just so it's clear. It says, "This instrument
21 will expire and terminate upon the earlier of: i.,
22 upon the network launch; ii., the payment -- we're
23 setting aside the payment of amounts in the purchaser
24 pursuant to Section 1 B; iii., September 30, 2017 (the
25 deadline date) if the network launch has not occurred

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1 as of such date, provided that the company shall have
2 the right to extend the deadline date by 60 days in its
3 sole discretion," and then end, "iv., the failure to
4 obtain net proceeds of more than \$25 million from the
5 sale. All rights pursuant to fact."
6 Do you see where I read that?
7 THE WITNESS: I do.
8 MR. MITCHELL: Okay. I guess, what does
9 this term -- I'm trying to understand like what did --
10 how did this term fit into the deal?
11 I think I'm going to -- in fact, yeah. I
12 think I may be passing you on the question. I'm trying
13 to understand like what -- these terms all seem to have
14 something to do with sort of the idea of when the --
15 like how long this deal lasts?
16 THE WITNESS: Yes.
17 MR. MITCHELL: So, I guess, I'm trying to
18 understand what -- the little Roman numeral i is the
19 network launch?
20 THE WITNESS: Yes.
21 MR. MITCHELL: That's the description of
22 the sort of one day -- a day at which -- a date in the
23 future when Kik sells Kin tokens to the public?
24 THE WITNESS: It's defined below. I'm just
25 reading it now.

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1 MR. MITCHELL: Sure.
2 THE WITNESS: Yes. It seems to be the date
3 they will sell Kin tokens to the general public.
4 MR. MITCHELL: Okay. And if they sold Kin
5 tokens to the general public, then Pantera would start
6 to get rights to Kin tokens?
7 THE WITNESS: Okay.
8 MR. MITCHELL: Is that right?
9 THE WITNESS: Yes.
10 MR. MITCHELL: All right. And then the
11 second one, if you flip back to Section 1 B, you can
12 see that's about the dissolution event.
13 THE WITNESS: Okay.
14 MR. MITCHELL: And if there's a dissolution
15 event, which is like the voluntary termination of the
16 operations of Kik or things like that, the little Roman
17 numeral 2 is -- appears to be like if -- in some way if
18 Kik -- before there's -- anything else happens, it's
19 the first instance that -- I guess I'm talking about if
20 Kik, you know, terminates the company or is liquidated,
21 then certain things would happen as well, right?
22 THE WITNESS: Okay.
23 MR. MITCHELL: And, I guess, I'm trying to
24 understand what was the importance of the third one,
25 which is just September 30th, 2017, the deadline date?

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1 When you were working with Kik, was there
2 some -- did you have discussions with them about
3 timing?
4 THE WITNESS: No. And that -- with respect
5 to this question, it seems like there just had to be --
6 this thing couldn't -- this contract couldn't go on
7 forever, and there had to be some date. And it was set
8 to be September plus 60 days it appears, if something
9 else, some other condition --
10 MR. MITCHELL: Sure.
11 THE WITNESS: -- and if it -- yeah.
12 MR. MITCHELL: What was the some -- what --
13 some -- what had to happen?
14 THE WITNESS: It seems like if the network
15 launch has not occurred as of such date, the company
16 could extend for another 60 days.
17 MR. MITCHELL: Right. And then after that
18 60 days, what was your understanding of what will
19 happen? If Kik hadn't done a network date by September
20 30th or 60 days, what would Pantera do?
21 THE WITNESS: I don't recall. And I'm
22 reading it, it seems like then this document would be
23 terminated. That's my --
24 MR. MITCHELL: And you'd get your money
25 back?

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1 MR. WARKOL: Sorry. Just to clarify.
2 MR. MITCHELL: Yes.
3 MR. WARKOL: Do you remember these terms or
4 are you just following along the language and trying to
5 answer his questions based on the language?
6 THE WITNESS: No. I don't remember the
7 terms. I am trying to get all the --
8 MR. MITCHELL: Yes. That's helpful. I'm
9 actually just trying to -- when you had conversations
10 with Kik, did you talk to them about this idea, that
11 there was a deadline?
12 THE WITNESS: No. I would think it's
13 standard in SAFT to have some date at which if the sale
14 to the general public has not actually happened, the
15 transaction would be unwound.
16 MR. MITCHELL: Would be unwound. Okay.
17 And was that your understanding that if Kik
18 didn't do a transaction by some date that then the
19 transaction would be unwound?
20 THE WITNESS: I don't actually recall it,
21 but that seems to be what this SAFT says. And that
22 seems reasonable that if it didn't have it by some
23 date, it would -- the amounts would be unwound.
24 MR. SCHLEGELMILCH: Did you read the SAFT
25 before you signed it? Or would it have been your

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1 practice to read, if you don't recall specifically?
2 THE WITNESS: I have -- yes. It's -- it is
3 not my practice to read every word of all 45 SAFTs that
4 we've done.
5 MR. SCHLEGELMILCH: Okay. Do you recall
6 whether or not you read this before signing it?
7 THE WITNESS: I do not recall.
8 MR. MITCHELL: One last -- actually -- I'm
9 sorry -- just hold on one sec.
10 MR. SCHLEGELMILCH: But you understood that
11 the SAFT controlled the legal relationship between
12 Pantera on the one hand and Kik on the other?
13 THE WITNESS: Yes.
14 MR. SCHLEGELMILCH: Okay.
15 BY MR. MURTHA:
16 **Q So we talked earlier about the fact that**
17 **you were endeavoring to create and sell an ICO, but**
18 **then actually did create the Pantera ICO fund, right?**
19 A Yes.
20 **Q And in May of 2017, did you have plans to**
21 **include Kin as part of the ICO fund?**
22 A I met Kin and heard about it on May 24th.
23 So in the space of the next several weeks thinking
24 evolved that it would be -- we would invest in it, and,
25 originally, we envisioned a fund called the digital

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1 asset fund that would encompass all of our protocol
2 tokens. And at some point soon thereafter, I think in
3 June, we decided to split what's now the ICO fund out
4 of the digital asset fund. And so it was envisioned to
5 be in a fund. And at some point it went from being in
6 the digital asset fund to a spin out or split called
7 the ICO fund.
8 **Q And in 2017, did you want to create the ICO**
9 **fund as soon as possible as soon as you possibly could?**
10 A In early 2017, we began recruiting a
11 co-chief investment officer to launch a fund that could
12 buy digital assets like this particular deal.
13 **Q And did you want to close the first sale of**
14 **the ICO fund as soon as possible? Did you want to wait**
15 **until 2018 or 2019 or was it important to get the fund**
16 **up and established in 2017?**
17 A In the middle of 2017, it seemed like an
18 opportune time to launch the fund.
19 **Q And why was that?**
20 A Because much larger deals like Kin were
21 coming to market.
22 **Q When you considered investing in Kin, did**
23 **you weigh when Kik would sell its tokens to the public?**
24 A It was not a principal determinant of our
25 interest in the deal.

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1 **Q But you -- I think you just testified that**
 2 **you wanted Kin to be a part of the ICO fund, right?**

3 A We wanted the SAFT contract for Kin to be
 4 in what's now the ICO fund.

5 MR. MITCHELL: When you were investing, did
 6 you weigh the timeline that Kik told you for when they
 7 expected to sell Kin tokens to the public?

8 THE WITNESS: I don't recall their timeline
 9 being, you know, significantly different than most of
 10 the ICOs that we were discussing at the time.

11 MR. MITCHELL: And what was that timeline
 12 at the time?

13 THE WITNESS: Typically, I would say a
 14 three or four month period between when the SAFT
 15 agreement was done and a public auction was held.

16 MR. MITCHELL: Okay. And at the time your
 17 understanding from Kik was that they would be roughly
 18 on that time clock?

19 THE WITNESS: I didn't have any reason to
 20 expect it to be very different.

21 MR. MITCHELL: Okay. And did that -- does
 22 that type of time -- did that -- was that timeline one
 23 of the things you weighed in terms of deciding what --
 24 whether to invest in -- whether to purchase the SAFT?

25 THE WITNESS: Because it was within

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1 delaying it until something like December.

2 **Q And then what happened?**

3 A I talked to my partners just to get a sense
 4 if we had any advice for them, and it seemed to me that
 5 everything they'd laid out was reasonable and I didn't
 6 see any reason to change the published plan.

7 **Q Did that conversation take place before or**
 8 **after you had signed the SAFT?**

9 A I would think it was after, from my
 10 recollection, but I'm not sure.

11 MR. MITCHELL: When you say the published
 12 plan you just mentioned before, did that -- did you
 13 like or not like the idea of going -- of putting the
 14 sale in December?

15 THE WITNESS: I was in favor of proceeding
 16 ahead with the plan as stated. More just from a
 17 prudent standpoint, everything seemed fine. And, as
 18 you know, if you wait, sometimes bad things happen, you
 19 know.

20 MR. MITCHELL: So you didn't see a reason
 21 to wait until December?

22 THE WITNESS: Yes, I didn't see a
 23 compelling reason to wait.

24 MR. MITCHELL: And did you talk to the
 25 Kik -- did you tell that to the Kik people?

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1 industry norms, it wasn't a material factor. If they
 2 had said it would be two years or something, it might
 3 have changed our view.

4 BY MR. MURTHA:

5 **Q That was going to be my next question.**
 6 **If they had decided 2018 or 2019, would**
 7 **that have affected your decision?**

8 A Well, we certainly would have included
 9 that.

10 MR. MITCHELL: You would have included it
 11 in your analysis?

12 THE WITNESS: Yes.

13 BY MR. MURTHA:

14 **Q Did you have any concerns that the ICO**
 15 **window would close if the Kin public ICO was delayed**
 16 **for any reason?**

17 A Yes. Oh, I'm sorry. I want to make
 18 sure -- I don't think there's any causality between the
 19 two. It's just the opportunity might have gone away.

20 **Q Fair enough. Yeah.**

21 **Did Kik ever raise the idea of delaying the**
 22 **public sale to you?**

23 A They did.

24 **Q Tell me about that.**

25 A I think they said they were considering

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1 THE WITNESS: I did. I believe I sent an
 2 e-mail with advice that everything seemed fine with
 3 their original plan, and if they wanted free advice it
 4 seemed like it would be smart to just proceed ahead.

5 MR. MITCHELL: Did Kik tell you anything
 6 about why they were thinking about delaying the sale to
 7 the public?

8 THE WITNESS: At least one of the reasons
 9 was they had in the pipeline a product they were
 10 planning to release and -- sometime in the fourth
 11 quarter, and they were considering whether to time the
 12 auction to be coincident with the release of that
 13 product.

14 MR. SCHLEGELMILCH: What kind of product?

15 THE WITNESS: I -- it was a way to use the
 16 tokens within the social network.

17 MR. SCHLEGELMILCH: Was it digital
 18 stickers?

19 THE WITNESS: I actually don't recall, but
 20 it was something -- some digital asset that people
 21 could contribute change -- trade. I don't remember
 22 what the name of it was.

23 MR. MITCHELL: So by product it was like a
 24 feature of the --

25 THE WITNESS: A feature.

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1 MR. MITCHELL: Of the Kik app?

2 THE WITNESS: I would say that, yes, it

3 would be originally a feature of the Kik app.

4 MR. MITCHELL: And so someone from Kik said

5 we're thinking about doing this feature, but we don't

6 think that feature will be ready until December or

7 until a later date?

8 THE WITNESS: I think they said they were

9 building a feature, and it would be ready in the fourth

10 quarter at some point.

11 MR. SCHLEGELMILCH: Do you recall any

12 discussion of why the token distribution event and the

13 development of the feature were correlated in any way

14 or why they wanted to correlate them in any way?

15 THE WITNESS: I do not recall having that.

16 MR. MITCHELL: In the conversation that you

17 described, did they e-mail you or did they have a phone

18 call with you or a meeting?

19 How did they -- what do you remember about

20 how they communicated this?

21 THE WITNESS: I remember that I

22 communicated my advice back by e-mail, but I don't

23 remember how I originally heard that they were thinking

24 of changing.

25 MR. MITCHELL: Do you remember who on the

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1 **Q If Kik had gone through and delayed the**

2 **public sale into the fourth quarter of 2017, would that**

3 **have been something that you would have considered in**

4 **whether or not you would have invested?**

5 A No. I don't think it would have changed

6 our view.

7 **Q Why not?**

8 A We thought this was an incredibly important

9 investment, and they changed some of the terms, like

10 the discounts. They changed lockups, and we proceeded

11 ahead. And if they said they were going to delay it, I

12 don't think we would have done anything different.

13 **Q Was it important to you for Kik to be the**

14 **first big company to conduct an ICO?**

15 A Yes. I thought they had much more value

16 than being the second.

17 **Q And if Kik had delayed the ICO into the**

18 **fourth quarter, did that put it at risk of no longer**

19 **being the first?**

20 A It would seem like any delay would increase

21 the risk that they were no longer the first ICO, even a

22 delay of one day or whatever, you know. There's no

23 specific time.

24 MR. SCHLEGELMILCH: Quick question.

25 The header -- or the subsection of your

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1 Kik side you spoke to?

2 THE WITNESS: I don't.

3 (SEC Exhibit No. 164 was marked for

4 identification.)

5 BY MR. MURTHA:

6 **Q Mr Morehead, I'm handing you a document**

7 **that I've marked as Exhibit 164, which is a one-page**

8 **e-mail from you to Peter Heinke, Tanner Philp and**

9 **copied to your partner Paul at Pantera.**

10 **For the record, this document is a one-page**

11 **e-mail that bears the Bates stamp PANT 000000326.**

12 **Do you recognize this document,**

13 **Mr. Morehead?**

14 A I do.

15 **Q Is this the communication that you were**

16 **referencing before I marked this exhibit?**

17 A It is.

18 MR. MITCHELL: Just as a practical matter,

19 this e-mail is on June 15, 2017?

20 THE WITNESS: Yes.

21 MR. MITCHELL: And had you executed the

22 SAFT by then?

23 THE WITNESS: No, we had not.

24 MR. MITCHELL: Thank you.

25 BY MR. MURTHA:

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1 e-mail says, "ICO is planned rather than Q1."

2 Does -- this suggests to me that your

3 e-mail -- sorry, that's irrelevant -- that the ICO at

4 this point was planned for Q1 '18?

5 THE WITNESS: No. I don't recall, but in

6 reading this I would think that means the ICO to go

7 ahead as planned around September 27th as it did rather

8 than apparently Q1 of 2019.

9 MR. SCHLEGELMILCH: '18?

10 THE WITNESS: '18. Sorry. '18. You know,

11 six to eight months later.

12 MR. SCHLEGELMILCH: That's why I'm not

13 understanding because if your -- the bottom of your

14 e-mail reads six to eight months and this is -- just

15 trying to make sure I understand the timeline that was

16 proposed to you and what you were proposing here in

17 June of 2017?

18 THE WITNESS: It seems my understanding was

19 that the ICO was going to go around September of 2017

20 and that they must have been suggesting waiting six to

21 eight months which would put it into Q1 in 2018.

22 MR. SCHLEGELMILCH: All right. Thank you.

23 That makes sense now. Thank you.

24 MR. LEASURE: Under the section minority

25 presale, there's a paragraph beginning, "From the

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1 retail investors we've been in contact with," what can
2 you tell me about those contacts, what you meant by
3 those, the contacts as retail investors?

4 THE WITNESS: I mean, the accredited
5 investors that are Pantera's limited partner base.

6 MR. LEASURE: As opposed to nonaccredited
7 investors?

8 THE WITNESS: Yes. It is certainly not
9 meaning nonaccredited investors.

10 MR. LEASURE: Okay.

11 THE WITNESS: I meant as opposed to
12 institutions, insurance companies, and --

13 MR. LEASURE: Rich individuals?

14 THE WITNESS: High-net-worth individuals.

15 MR. LEASURE: High-net-worth individuals.
16 Okay. And that -- there have been -- Pantera had
17 reached out to high-net-worth individuals about Kin?

18 THE WITNESS: Yes.

19 MR. LEASURE: Okay. And so it's accurate
20 that there was a lot of excitement about Kin that you'd
21 heard about?

22 THE WITNESS: This is accurate.

23 BY MR. MURTHA:

24 **Q How much of the Pantera ICO fund did Kik**
25 **ultimately make up when you first closed it?**

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1 A We invested 15 million, and I believe the
2 first closing was approximately 50 million. It quickly
3 grew to over 100, but it originally would have been 15
4 of 45. So 33 percent.

5 **Q I think I've seen e-mails that you had**
6 **written that Kin was going to make up 98 percent of the**
7 **new ICO fund at the first closing.**

8 **Are you saying that's not what actually**
9 **ended up happening?**

10 MR. WARKOL: I think you just changed
11 the -- because you had asked -- the first question that
12 you asked was what percentage of the ICO was going to
13 be Pantera's, and then I think what you just said was
14 what percentage was going to be in the fund. Sorry. I
15 may have misunderstood.

16 MR. MURTHA: No. My first question was:
17 How much of the Pantera ICO fund did Kik ultimately
18 make up?

19 MR. WARKOL: Sorry.

20 BY MR. MURTHA:

21 **Q And I think you answered: 15 million out**
22 **of 50 million, correct?**

23 A Yep, yes.

24 **Q That's your understanding?**

25 A Uh-huh.

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1 **Q Okay. Yeah. And then my question was: I**
2 **just had seen an e-mail where you had written to some**
3 **of the folks at Fortress that Kik was going to make up**
4 **98 percent of the new ICO fund, correct?**

5 A Yes. I think the correct way to say that
6 potentially would be -- I should've said 98 percent of
7 the non-cash assets in the front because we only had
8 two other positions at the time, FunFair and 0x. And
9 so the day that Kin closed it represented 98 percent of
10 the SAFTs in the portfolio, but we also had quite a bit
11 of cash.

12 **Q I see. So the fund was a mix of SAFTs and**
13 **cash?**

14 A Yes.

15 MR. MITCHELL: Does the fund -- do your
16 limited partners have to put the cash up front or do
17 you just call and say hey --

18 THE WITNESS: It's cash up front like a
19 hedge fund. It is a hedge fund.

20 BY MR. MURTHA:

21 **Q So if the Kin ICO was delayed six to**
22 **eight months, pushed into the first quarter of 2018,**
23 **and it made up 98 percent of the ICOs in the Pantera**
24 **ICO fund, wouldn't that have been something that you**
25 **weighed before signing the SAFT?**

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1 A We still own 90 percent of the Kin tokens a
2 year and a bit later, so it's not that important.

3 **Q Understanding that you still own 90 percent**
4 **of the Kin a year later, my question is a little**
5 **different. It's: Is it something that you would have**
6 **weighed in investing, the fact that you're creating**
7 **this Pantera ICO fund --**

8 A Uh-huh.

9 **Q -- 98 percent of the ICOs or SAFTs that are**
10 **in that fund are comprised of the Kin SAFT --**

11 A Uh-huh.

12 **Q -- and you don't actually receive those**
13 **tokens until Kik proceeds with the public ICO, right?**

14 A Yes.

15 **Q So that's not something you would have**
16 **weighed?**

17 A We would have weighed it, certainly, but I
18 don't think it would have changed our view to make the
19 investment.

20 If I might, I would clarify that the
21 98 percent number was the percentage of assets on the
22 day the fund launched, and, typically, a hedge fund
23 raises money and then goes and makes investments.

24 We had previously purchased Kin, 0x and
25 FunFair, and so, yes, it was not a diversified

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1 portfolio a day before the fund actually launched. But
2 then we raised cash and then subsequently invested in
3 42 other things. So it's now a very diversified
4 portfolio.

5 **Q Sure.**

6 A And that's why the delay of one of 45
7 things, you know, is not a material impact to the fund.

8 **Q But you didn't know there was going to be**
9 **45 different tokens in the fund as of, you know, June**
10 **of 2017, did you?**

11 A I certainly had no assurance that
12 would happen, but in 30 years of investing history I
13 had a good confidence that we would be able to invest
14 in other deals and build a diversified portfolio.

15 **Q All right. Are you familiar with the Howey**
16 **test?**

17 A I am.

18 **Q Understanding that you're not a lawyer, can**
19 **you give us your understanding of what the Howey Test**
20 **is?**

21 A Yes. There's four criteria, one is people
22 investing money in a common enterprise in the
23 expectation of profit sharing.

24 **Q Did you have conversations with anyone**
25 **including -- and I don't want to hear about**

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1 **conversations with lawyers, but did you have**
2 **conversations with anyone including executives from Kik**
3 **about the Howey Test and how it might impact the Kin**
4 **ICO?**

5 A I don't recall conversations with Kik about
6 the Howey Test. In the cryptocurrency industry, I've
7 had lots of different conversations, but I don't recall
8 anything specific with Kin or Kik.

9 **Q Tell me about the conversations you've had**
10 **in the cryptocurrency space that you just said?**

11 MR. WARKOL: But not with lawyers.

12 MR. MITCHELL: Not with your lawyer.

13 BY MR. MURTHA:

14 **Q Correct.**

15 A Well, there's a lot of interest, obviously,
16 in the topic, and so I've, you know, read a bit about
17 it and thought a bit about it. And, you know, from
18 time to time people either want to share their opinion
19 with me or ask my opinion. And then, obviously, I have
20 consulted counsel over the years on various deals.

21 **Q Did anyone from Kik ever tell you that they**
22 **were comfortable with proceeding with the Kin offering**
23 **in the context of the U.S. Securities laws?**

24 A I don't remember that conversation, but,
25 obviously, if they proceeded with the offering -- yeah.

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1 So I don't remember any conversation.

2 **Q Are you familiar with the term minimum**
3 **viable product or MVP?**

4 A Yes.

5 **Q What's your understanding of that term?**

6 A I've heard the term. I don't know if I
7 could define it, if I saw it. It seems to be exactly
8 as the words say, some product that -- that works.

9 **Q Some sort of product that works?**

10 A An existing product.

11 MR. SCHLEGELMILCH: Have you heard the term
12 MVP used in the context of the Kin offering or any
13 other digital token offering?

14 THE WITNESS: I don't recall specifically
15 MVP in digital token offerings.

16 BY MR. MURTHA:

17 **Q Do you have an understanding of how Kin**
18 **purchasers could use Kin tokens within the Kin [sic]**
19 **app as of the day they received their tokens?**

20 A I don't have a strong knowledge of it, but
21 the tokens can be used to buy digital assets of some
22 kind right now. Ultimately, it would be for all kinds
23 of services in the -- and the Kin Ecosystem will offer
24 like music and photo sharing. And I don't actually
25 know how far along their product rollout has come.

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1 MR. LEASURE: As an investor in the Kin
2 project, did you care how far along they were as of day
3 one?

4 I'm getting the vibe that you didn't, which
5 is why I'm asking you that.

6 THE WITNESS: In most of these projects,
7 it's literally years until the -- any product has been
8 delivered, and I was very excited that -- I thought
9 that Kin Ecosystem could deliver a product very quickly
10 relative to the industry.

11 The first ICO Joe's done -- and I mean my
12 partner Joey Krug -- just went live after four years,
13 and it's one of the most successful projects out there.
14 So I felt that Kin could get something live very, very
15 quickly relative to the multi-year industry average.

16 MR. LEASURE: And what does it mean that
17 Kin went live, just to clarify that for the record?

18 THE WITNESS: To have products that people
19 could use the tokens to do things with.

20 MR. LEASURE: And that was the state
21 that -- it's your understanding that that was the state
22 of Kin -- the Kin project as of the time of the token
23 distribution event?

24 THE WITNESS: So what was the question?

25 MR. LEASURE: Yeah. You had said that to

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1 go live in this context means that there are products
2 that can be purchased with Kin?

3 THE WITNESS: Sometimes people and maybe me
4 say go live meaning that the token's auctioned and it's
5 free to trade, and then the product being launched and
6 actually in production working would be another
7 definition of go live. And I'm not sure which of the
8 two we're talking about.

9 MR. LEASURE: Well, I meant -- No. It's
10 just -- okay. I understand.

11 What was in -- what was in place from your
12 understanding as of day one?

13 THE WITNESS: I don't -- on September 27th
14 when the project auction happened, I'm not aware
15 whether or not they had a product that was functional.

16 MR. MITCHELL: That was -- so, I mean, I
17 assume for like -- that was not -- that issue was not,
18 you know, very important to you in your investment
19 decision?

20 THE WITNESS: No.

21 MR. MITCHELL: No?

22 THE WITNESS: It was not important.

23 BY MR. MURTHA:

24 **Q Prior to the --**

25 A Well, I would have said that important in

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1 the investment decision was that I thought they
2 could -- whether they would be live on that date or
3 they could be live very soon thereafter, which is,
4 again, very, very different than almost every other
5 project in this space.

6 MR. SCHLEGELMILCH: I think sort of the
7 baseline against which you're comparing it is
8 Mr. Krug's token work, which you said took about four
9 years, it actually hasn't --

10 THE WITNESS: I would say that's an
11 exemplar of a fast launch, but, you know, all the -- as
12 far as I know, there's probably a single-digit number
13 of token launches where the product is actually working
14 today, and this is now a year after the events we're
15 talking about and four years after the first ICO was
16 created.

17 MR. SCHLEGELMILCH: What was the activity
18 Mr. Krug worked on?

19 THE WITNESS: A project called Augur.

20 MR. MITCHELL: A-u-g-e-r?

21 THE WITNESS: A-u-g-u-r.

22 MR. MITCHELL: A-u-g-u-r. Thank you.

23 BY MR. MURTHA:

24 **Q So prior to executing the SAFT with Kik,**
25 **were you involved in any discussions or communications**

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1 **with Kik executives regarding the development of a**
2 **product that would pass the Howey Test?**

3 A I don't recall connecting a product in the
4 Howey Test.

5 MR. MURTHA: Let's go off the record at
6 1:45.

7 THE VIDEOGRAPHER: Going off the record.
8 The time on the video monitor is 1:46 p.m.

9 (A brief recess was taken.)

10 THE VIDEOGRAPHER: Back on the record. The
11 time on the video monitor is 1:58.

12 BY MR. MURTHA:

13 **Q Back on the record at 1:58 after a brief**
14 **break in which you had no substantive conversations**
15 **about this investigation with the staff; is that right,**
16 **Mr. Morehead?**

17 A That's correct.

18 **Q Thank you. Okay. I'm going to hand you a**
19 **document which has been previously marked as**
20 **Exhibit 154 and ask you to take a look at that. I'll**
21 **tell you up front you are not a recipient of this**
22 **document. There's no reason to believe you've ever**
23 **seen it before. Take your time and look at it and read**
24 **the whole thing if you want.**

25 **But we'll be focusing on the top e-mail**

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1 **which is a -- for the record a June 16th, 2017, e-mail**
2 **from Fred Wilson to Brad Burnham copying the investment**
3 **team. It was a multi-page e-mail document that begins**
4 **with the Bates label USV 0011569.**

5 **And you can just let me know when you're**
6 **done reviewing the document, please, Mr. Morehead.**

7 A I am, I am. I'm done.

8 **Q Okay. So in this e-mail Mr. Wilson is**
9 **writing to Mr. Burnham and others on the Union Square**
10 **Ventures investment team, and he writes in part, "Dan**
11 **at Pantera is my problem right now in managing Ted.**
12 **Dan is pushing Ted to optimize for market cap not token**
13 **utility. He is arguing that the first token to hit**
14 **coin market cap that is about decentralizing an**
15 **existing centralized app will go right to the top of**
16 **the charts and the next one will hardly register. He**
17 **literally told Ted do you know who the second black**
18 **baseball player was? I've been arguing that we should**
19 **do the token distribution even when Kin is live and**
20 **working in Kik and we can settle on an offchain.**
21 **Anything short of that seems, quote, janky, end quote,**
22 **to me. Dan is arguing we should rig something up that**
23 **is gimmicky but passes the Howey Test and do the token**
24 **distribution event ASAP."**

25 **Do you have any idea what Mr. Wilson is**

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1 **talking about in this e-mail?**

2 A It seems that the previous exhibit that
3 we've talked about has been kind of Chinese/Swiss word
4 translated a few times and then come back in kind of
5 extreme characterized form in Fred Wilson's words.

6 **Q The previous being Exhibit --**

7 A 164.

8 **Q -- 164?**

9 **So you don't remember any conversations**
10 **along these lines?**

11 A I've never -- I don't believe I've ever met
12 Brad Burnham or most of the people here. I've spoken
13 to Fred Wilson once -- or a couple of times on another
14 matter, but I don't remember having conversations with
15 most of the people copied here.

16 **Q Okay. So it's your belief that Mr. Wilson**
17 **has taken the e-mail that you wrote in Exhibit 164 and**
18 **sort of --**

19 A Well, he certainly has appended to this as
20 another e-mail I've written, and he seems to have
21 combined the e-mail that is appended to it with a
22 separate e-mail which is now Exhibit 164 and kind of
23 taken a few of those kind of themes and exaggerated
24 them here. And including -- I don't recall discussing
25 the Howey Test with Kin, and I certainly never

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1 notified it was coming. But we would see it appear in
2 the account.

3 **Q I don't think I asked you this yet.**

4 **Do you have the Kik messaging app?**

5 A I do.

6 **Q Did -- when you received the Kin tokens,**
7 **did you link the Ethereum wallet to the Kin [sic]**
8 **messaging app?**

9 A I did not. I -- our COO and head of
10 trading handle all of our wallet. So I don't actually
11 handle the money coming around.

12 **Q Do you have any understanding of whether or**
13 **not they have the Kik messaging app and linked the**
14 **messaging app to Pantera's Ethereum wallet?**

15 A I -- I am not aware of whether they have
16 done it.

17 **Q Okay. What did Pantera do with the Kin**
18 **after it received it?**

19 A We've held most of it.

20 **Q Did you buy anything with it?**

21 A I don't believe so.

22 **Q Did you give them away to anybody?**

23 A I don't believe so.

24 **Q Did you ever receive Kin from any others**
25 **for any reason?**

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1 discussed it with Fred Wilson or Brad Burnham.

2 MR. MITCHELL: I think that was -- that was
3 what we were trying to understand is did you have some
4 kind of conversation with Mr. Wilson or -- I'm sorry --
5 with Mr. Livingston or somebody else at Kik sort of
6 about how to pass the Howey Test?

7 THE WITNESS: I don't recall that, and I'm
8 certainly not an expert on the Howey Test.

9 BY MR. MURTHA:

10 **Q Okay. You can set that document aside. We**
11 **might have gone over some of these questions earlier,**
12 **but I just want to try to clean up the record a little**
13 **bit here.**

14 **Did Pantera receive the Kin that it had**
15 **bought?**

16 A We received half of it on September 27th,
17 2017, and we're due to receive the other half sometime
18 right around now.

19 **Q Okay. So just sticking to the half that**
20 **you received on September 27th, how did you know you**
21 **received it?**

22 A It would have been sent to an Ethereum
23 address.

24 **Q Like a -- is that like an Ethereum wallet?**

25 A It's a wallet, and I presume we were

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1 A I'm not aware of that.

2 MR. LEASURE: I'm sorry. You said you held
3 most of it -- you said that Pantera held most -- has
4 held most of it, right?

5 THE WITNESS: Yes.

6 MR. LEASURE: What percentage?

7 THE WITNESS: We currently hold 90 percent
8 of the original total amount.

9 MR. LEASURE: What happened to the other
10 ten percent?

11 THE WITNESS: We sold ten percent, and
12 that's inclusive of both -- the whole 15 millions
13 worth, we have sold ten percent over the intervening
14 year.

15 MR. LEASURE: And where did you sell it?

16 THE WITNESS: I'm sorry?

17 MR. LEASURE: Did you sell them in
18 exchange?

19 THE WITNESS: Yes. We sold them on
20 exchanges.

21 MR. LEASURE: One exchange? Multiple
22 exchanges?

23 THE WITNESS: I'm not sure. At least one
24 exchange. I don't handle the trading.

25 MR. LEASURE: Is there liquid trading on

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1 exchanges in Kin?

2 THE WITNESS: There is at least one

3 exchange that trades it, and it has some liquidity.

4 I'm not sure what the spirit of the question is.

5 MR. LEASURE: But liquid is obviously a

6 relevant term?

7 THE WITNESS: Yeah.

8 MR. LEASURE: I understand that. Yeah.

9 THE WITNESS: We sold ten percent of a

10 pretty large position.

11 MR. LEASURE: Is Kin as liquid as say other

12 assets like Bitcoin?

13 THE WITNESS: No.

14 MR. LEASURE: Is that a problem when you're

15 trying to sell the amount of Kin you did or was that

16 still easily accomplished?

17 THE WITNESS: Oh, it takes -- Bitcoin

18 trades sometimes billions a day, and so we could trade

19 it -- a huge amount in one day. So it takes days or

20 weeks to sell positions in Kin.

21 MR. LEASURE: Even if it's just the ten

22 percent --

23 THE WITNESS: Yes.

24 MR. MITCHELL: How much value did Pantera

25 get back from that ten percent?

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1 THE WITNESS: I don't know, but I know we

2 sold -- I think we sold most of it above our cost

3 basis. So a very rough guess would be we got

4 25 percent back of our cost basis.

5 MR. MITCHELL: And that's, again, the

6 25 percent --

7 THE WITNESS: It's just a guess I just know

8 that we currently hold 90 percent. It spent most of

9 the time between here and there above its cost basis.

10 So presumably we made decent return.

11 MR. SCHLEGELMILCH: And I think you said

12 this earlier. I just want to make sure I understand.

13 That's 90 percent of the total amount

14 received over -- in two periods or two moments?

15 THE WITNESS: Yes. 90 percent of the

16 amount we ultimately expect to get is still --

17 90 percent of the number of tokens we ultimately expect

18 to get are still on our books.

19 MR. SCHLEGELMILCH: And so it's 20 amount

20 of the amount that you've actually been issued?

21 THE WITNESS: Yes.

22 MR. SCHLEGELMILCH: 20 percent of the

23 amount you've actually been issued?

24 THE WITNESS: Yes.

25 MR. SCHLEGELMILCH: Okay. Thank you.

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1 BY MR. MURTHA:

2 **Q If Kin were listed on more liquid**

3 **exchanges, would you have recommended liquidating more**

4 **than the 20 percent of the half that you've liquidated?**

5 **That was a bad question. I have a thousand**

6 **questions with multiple fractions in them.**

7 **If Kin were -- if you were able to**

8 **liquidate Kin on a larger exchange -- or I'm sorry.**

9 **I'm struggling with this one.**

10 **If Kin were listed on more major exchanges**

11 **and had more liquidity available to it, can you --**

12 **would you have recommended selling more than you**

13 **already have?**

14 A If Kin had an order of magnitude more

15 liquidating than it does, we probably would have sold a

16 little more of it because we often sell positions

17 across the fund to raise cash for new deals. And it's

18 a practical reality that we sell the ones that have --

19 that are free to trade, meaning the positions are not

20 yet free to trade so we can't sell them and the ones

21 that are more liquid.

22 So if Kin had more liquidity, we probably

23 would have sold more tokens.

24 MR. MENDEL: Why specifically did Pantera

25 sell the ten percent?

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1 THE WITNESS: Again, to raise money for new

2 deals. From time to time, the fund is typically fully

3 invested. So if we have a new deal, we have to sell

4 some mix of our existing deals.

5 MR. MENDEL: Thank you.

6 MR. LEASURE: Does the ICO fund market

7 positions on a periodic basis?

8 THE WITNESS: We do strike an NAV at month

9 end.

10 MR. LEASURE: How are the Kin -- what -- by

11 what method are the Kin holding to the value at?

12 THE WITNESS: All of the holdings of the

13 fund are valued at the lower of cost or to market.

14 MR. LEASURE: Okay.

15 THE WITNESS: So positions not yet trading

16 are market cost. Positions that are trading are marked

17 at market.

18 BY MR. MURTHA:

19 **Q Have you had any conversations with other**

20 **SAFT purchasers of Kin about how they've used the Kin**

21 **that they've received?**

22 A I don't recall any conversations.

23 **Q Have you had any conversations with any**

24 **other SAFT purchasers of Kin about selling Kin?**

25 A I do remember that one of our limited

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1 partners bought some Kin or at least was very excited.
 2 I'm not sure if he bought it, but he, at least right
 3 after the token event on September 27th, e-mailed to
 4 talk to me about why it wasn't performing better and I
 5 took that to mean that he bought some. But I actually
 6 don't know. He's just a very eager follower of the
 7 markets.

8 And -- but I'm not aware if he sold
 9 something. He seemed -- there's one conversation I
 10 remember where somebody was asking about the market and
 11 why it didn't go better. And -- but for the most part,
 12 I am aware of probably half a dozen people that I think
 13 at least participated in the token distribution event,
 14 and I don't know whether they've sold or not.

15 **Q And who was the limited partner that you**
 16 **referenced earlier?**

17 A Jacob Simms.

18 **Q And he's a limited partner of Pantera?**

19 A Pantera ICO fund.

20 MR. LEASURE: Talking about people who
 21 bought at the public distribution event, I think you
 22 said you talked to six people; is that right?

23 THE WITNESS: I believe about six people
 24 also bought in the token distribution event just kind
 25 of peers of mine and people in the industry.

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1 MR. LEASURE: But there was a much
 2 broader -- or I'll represent to you -- a lot more --
 3 numerically, a lot more people bought in the public
 4 event than bought SAFTs, right?

5 THE WITNESS: Yeah.

6 MR. LEASURE: Do you have any --

7 THE WITNESS: And I'm sorry. I meant half
 8 a dozen people, I think they bought in the SAFT round
 9 that then converted into the public auction.

10 MR. LEASURE: Got it. And have you talked
 11 to just public purchasers, people who didn't buy in the
 12 SAFT round but alleged to buy --

13 THE WITNESS: I can't recall doing that.

14 MR. LEASURE: Do you have any -- we've
 15 talked today about why Pantera bought Kin, right?

16 THE WITNESS: Yeah.

17 MR. LEASURE: Do you have any data or
 18 analysis available to you as to why people in the
 19 public event bought Kin?

20 THE WITNESS: I don't have any data.

21 MR. LEASURE: You don't know why they
 22 bought Kin?

23 THE WITNESS: No.

24 MR. LEASURE: Right. Just I'll represent
 25 to you it's 10,000 -- there could be a variety of

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1 different reasons, right?

2 THE WITNESS: Yeah.

3 MR. LEASURE: But you don't -- you can't,
 4 sitting here today, say whether they bought it for the
 5 same reasons Pantera did or for other reasons?

6 THE WITNESS: I would imagine there's a
 7 very wide spectrum of motivations.

8 BY MR. MURTHA:

9 **Q Did you ever have conversations with anyone**
 10 **at Kik about secondary exchanges or getting listed on**
 11 **exchanges?**

12 A I believe I did, and I know my partner did.

13 **Q Tell me about that.**

14 A I know my partner, Paul Veradittakit tried
 15 to help them become listed on at least one exchange,
 16 Bittrex.

17 **Q And thank you for saying his name for us**
 18 **because I called him only Paul earlier because I was**
 19 **scared to pronounce --**

20 A Well, you read his e-mail Paul at Pantera,
 21 so that was correct.

22 **Q Do you know what ultimately -- what -- I'm**
 23 **sorry.**

24 **What did Pantera or what did Paul do with**
 25 **regard to getting Kin listed on Bittrex?**

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1 A With 1500 projects coming to market,
 2 obviously, exchanges can't list every one. So they
 3 want to determine which ones are highly -- are likely
 4 to be more traded than others.

5 And so -- oh, I actually think I reached
 6 out to the CEO of Bittrex, Bill Shihara to just make
 7 sure he knew that we bought a significant position and
 8 we're ultimately going to sell those positions.

9 **Q And how did -- what happened after you**
 10 **reached out to him?**

11 A I think then someone at Bittrex then got
 12 engaged with Paul Veradittakit about providing
 13 information to help them determine whether they should
 14 list the token.

15 **Q Is Kin -- did Kin ever get listed on**
 16 **Bittrex?**

17 A I actually don't know. I think so, but I'm
 18 not sure.

19 **Q Why do you say you think so?**

20 A I don't do the trading. I'm not sure which
 21 exchanges we use, but I think they're listed on Bittrex
 22 because it's the largest exchange for trading things
 23 like this.

24 **Q Do you have an understanding of how**
 25 **exchanges fit into Kik's overall plan to do the Kin**

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1 **ICO?**

2 A No.

3 **Q Did anyone at Kik ever tell you that being**
4 **listed on exchanges was important for the project?**

5 A No. I don't recall if anyone said that,
6 but it is certainly a requirement to be listed so that
7 we could ultimately sell our position.

8 **Q A requirement of yours?**

9 A And I would think many investors.

10 MR. MITCHELL: As you understand the Kin
11 project, do you think it's necessary for the Kin
12 project -- sorry -- let me start over.

13 Based on your understanding of the Kin
14 project, do you think that it's necessary for the
15 tokens to be listed on exchanges in order for the
16 project to be successful?

17 THE WITNESS: Yes. I think it is to
18 achieve the full measure of the power of a
19 decentralized application, otherwise, it's back to Kin
20 Points, it's an in-app currency like frequent flyer
21 miles. And that's why frequent flyer miles -- I mean,
22 it could be because you can't transact them at an
23 exchange.

24 MR. MITCHELL: And transact -- the person
25 who holds them can't transact them with the general

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1 **Q And what are you basing that on?**

2 A I'm basing that on the fund has about 125
3 million in assets, and I believe the positions are
4 currently worth about 12 million.

5 MR. LEASURE: So is it the largest position
6 in the fund?

7 THE WITNESS: I think currently it's second
8 or third largest.

9 MR. LEASURE: Other -- and there are -- you
10 have larger positions --

11 THE WITNESS: Positions that are larger,
12 yeah.

13 BY MR. MURTHA:

14 **Q Now, will that change when Pantera receives**
15 **these additional Kin tokens?**

16 A No.

17 We currently have -- we, obviously,
18 have to count them as assets even though they're -- we
19 don't custody them yet because we own them. So they've
20 been assets on our balance sheet for a year, and when
21 we get custody of them, we already have custody of 40
22 percent that we're not doing -- you know, we're --
23 day-to-day business we're -- sorry. Day-to-day
24 business we're selling when we need to, but getting
25 another 50 percent of the tokens won't change

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1 public?

2 THE WITNESS: They can't exchange them for
3 other assets.

4 MR. MITCHELL: They have to go to back to
5 the airline or whatever?

6 THE WITNESS: Yeah. They can only get free
7 flights rather than trade it for a toaster.

8 BY MR. MURTHA:

9 **Q Has Pantera received the -- its second**
10 **50 percent of Kin token allocation?**

11 A I'm not sure. It's due either days ago or
12 days from now. I know it's sometime right around now.

13 **Q Does Pantera -- what does Pantera plan to**
14 **do with the Kin that it receives in the next week or**
15 **so?**

16 A Essentially, it's business as usual. If we
17 find new deals that we need to sell positions, we would
18 sell. But we already have a large stock that we're not
19 selling right now. So it won't change. Nothing will
20 change the day the tokens hit.

21 **Q And forgive me if I asked this question**
22 **earlier. We've talked about a lot of topics today.**

23 **What percentage of the Pantera ICO fund**
24 **does Kin currently make up?**

25 A About ten percent.

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1 anything.

2 **Q Okay. I see. So the SAFT itself is**
3 **considered an asset?**

4 A Yes.

5 **Q Okay. Has the Pantera ICO fund been**
6 **successful to date?**

7 A Yes. It's up 30-something percent.

8 **Q 30 percent.**

9 MR. LEASURE: So I think you -- do you
10 still track Ted Livingston's discussions about the Kin
11 project on social media?

12 THE WITNESS: No.

13 MR. LEASURE: Do you -- I asked that
14 because you had referenced something he had said in
15 October?

16 THE WITNESS: Oh, I actually don't track
17 social media, so that's a blanket no.

18 MR. LEASURE: Good for you.

19 THE WITNESS: And then, secondly, he was at
20 a conference called Money20/20 in October, which, I
21 presume, there's a video out of, and it was really
22 compelling.

23 That was -- I was sharing that with you.

24 MR. LEASURE: Got it.

25 MR. MITCHELL: Where was that at?

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1 THE WITNESS: It was in Las Vegas October
2 of last year.

3 MR. LEASURE: And so if he makes periodic
4 appearances on YouTube and the like, that's not
5 something that you or someone at Pantera tracks?

6 THE WITNESS: No idea what other people do,
7 but I can guarantee you I've never seen it.

8 MR. LEASURE: Got it. How do you keep up
9 to date on the status of the Kin project?

10 THE WITNESS: So our investment team, Joey
11 Krug and Paul Veradittakit are talking to them from
12 time to time.

13 MR. LEASURE: Talking to who?

14 THE WITNESS: Talking to their peers at
15 Kin. And so I'm not sure who they talk to, whether
16 it's Ted or Tanner or Peter.

17 MR. MITCHELL: You just said at Kin.
18 Do you mean at Kin or at Kik?

19 THE WITNESS: I'm sorry. I'm not -- again,
20 I'm not aware whether any of the Kik employees have
21 transitioned to be at the Kin Foundation, but the
22 individuals are the ones I just named.

23 MR. SCHLEGELMILCH: Do you know whether or
24 not the Kin token was sold into Canada?

25 THE WITNESS: I believe that they didn't

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1 sell it into Russia and China, but I'm not sure about
2 Canada.

3 MR. SCHLEGELMILCH: Okay. Would -- if --
4 if it -- let's assume this is a hypothetical.

5 If Kin was not sold into Canada because the
6 Ontario Securities Commission determined that it was a
7 security, would that have been relevant to your
8 decision-making?

9 THE WITNESS: It would not have changed our
10 decision.

11 MR. SCHLEGELMILCH: Okay. Would you have
12 considered it?

13 THE WITNESS: Yes.

14 MR. MITCHELL: And we've been talking about
15 the foundation a couple of times.

16 THE WITNESS: Uh-huh.

17 MR. MITCHELL: Did Pantera do any due
18 diligence on the foundation?

19 THE WITNESS: No. We have not diligenced.
20 It's the setup of the foundation, to my knowledge. I
21 personally have not done it.

22 MR. MITCHELL: So you have not like
23 confirmed its legal standing or its employees or its
24 operations?

25 THE WITNESS: Not that I know of.

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1 MR. MURTHA: Off the record at 2:22.

2 THE VIDEOGRAPHER: Going off the record.
3 The time on the video monitor is 2:22.
4 (A brief recess was taken.)

5 THE VIDEOGRAPHER: We are back on the
6 record. The time on the monitor is 2:29.

7 BY MR. MURTHA:

8 **Q Back on the record at 2:29 after a brief
9 break during which you had no substantive conversations
10 with the SEC staff about this case; is that right,
11 Mr. Morehead?**

12 A That's correct.

13 **Q All right. So for this portion of
14 testimony, I am going to read out lyrics by the Pantera
15 band, and you're going to have to guess what song it
16 is. I kid.**

17 **So we had been earlier discussing how
18 Pantera has sold off about ten percent of its Kin,
19 right?**

20 A Yes.

21 **Q Do you know roughly when Pantera began
22 selling its Kin?**

23 A I believe it began in March.

24 **Q March.**

25 **Okay. And what's your basis for**

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1 **that belief?**

2 A I recently looked at a log of our
3 transactions, and my recollection is they began in
4 March. And there's been probably 20 or 30 different
5 dates that we sold small pieces.

6 **Q Okay.**

7 **And when was the last time that
8 Pantera sold position, if you know?**

9 A I think just recently. We have some new
10 deals that we're trying to fund and some redemptions
11 that we're funding.

12 So we are in the market selling.

13 Well, you know, the liquid positions in the fund,
14 including Kin.

15 MR. MITCHELL: Do you know whether Pantera
16 holds the Kin in the original wallet that Kik sent it
17 to?

18 THE WITNESS: I don't.

19 MR. MURTHA: All right. At this time we
20 always offer the witness the opportunity to clarify
21 anything they previously told us or to provide any
22 additional information that they think might be helpful
23 to us.

24 Is there anything you'd like to clarify or
25 add to your testimony today, Mr. Morehead?

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1 THE WITNESS: No, thank you.
 2 MR. MURTHA: And, of course, Mr. Warkol, at
 3 this time you now have the opportunity to ask the
 4 witness any questions that you might have.
 5 MR. WARKOL: No questions.
 6 MR. MURTHA: Okay. At this time we have no
 7 further questions for you. Should we need to speak
 8 with you again, we will be in touch with Mr. Warkol.
 9 And we are off the record at 2:31 p.m.
 10 THE VIDEOGRAPHER: This is disc two of two.
 11 Going off the record. The time on the monitor is
 12 2:31 p.m.
 13 (Whereupon, at 2:31 p.m., the examination
 14 was concluded.)

* * * * *

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1 PROOFREADER'S CERTIFICATE
 2
 3 In the Matter of: KIK INTERACTIVE
 4 Witness: Daniel Morehead
 5 File Number: HO-13388-A
 6 Date: Friday, September 14, 2018
 7 Location: Washington, D.C.
 8
 9 This is to certify that I, Christine Boyce,
 10 (the undersigned) do hereby swear and affirm that the
 11 attached proceedings before the U.S. Securities and
 12 Exchange Commission were held according to the record,
 13 and that this is the original, complete, true and
 14 accurate transcript, which has been compared with the
 15 reporting or recording accomplished at the hearing.
 16
 17
 18 _____
 19 (Proofreader's Name) (Date)

Page 152

1 REPORTER'S CERTIFICATE
 2
 3 I, Melinda Johnson, CSR, reporter, hereby
 4 certify that the foregoing transcript is a
 5 complete, true and accurate transcript of the testimony
 6 indicated, held on Friday, September 14, 2018, at
 7 Washington, D.C. in the matter of: Kik Interactive.
 8

9 I further certify that this proceeding was
 10 recorded by me, and that the foregoing transcript has
 11 been prepared under my direction.
 12

Date: _____

Official Reporter: _____

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